

Financial Section

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

To The Honorable Mayor, Members of the City Council and City Manager
City of Rockville, Maryland

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rockville, Maryland (City), as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rockville, Maryland, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2004 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Audit Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and Public Employee Retirement System information on pages 13 through 20 and 51 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Rockville, Maryland's basic financial statements. The Budgetary Comparison Schedule-General Fund on page 52 is not a required part of the basic financial statements but is supplementary information required by GASB. The financial information listed as supplementary information in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying introductory and statistical sections, as listed in the Table of Contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

McGladrey & Pullen, LLP

Frederick, Maryland
October 8, 2004

Management's Discussion and Analysis

Management's Discussion and Analysis

As management of the City of Rockville, Maryland, we offer readers of the City of Rockville, Maryland's financial statements this narrative overview and analysis of the financial activities of the City of Rockville, Maryland for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 6 – 9 of this report and the financial statements beginning on page 21.

FINANCIAL HIGHLIGHTS

The assets of the City of Rockville, Maryland exceeded its liabilities at the close of the most recent fiscal year by \$91,720,937 (net assets). Of this amount, \$20,749,322 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

As of the close of the current fiscal year, the City of Rockville, Maryland's governmental funds reported combined ending fund balances of \$20,512,400. Approximately one third of this total amount, \$7,886,192, is available for spending at the government's discretion (unreserved undesignated fund balance).

At the end of the current fiscal year, unreserved fund balance for the general fund was \$10,595,897, or 26.9 percent of total general fund expenditures.

The City of Rockville, Maryland's total bonded debt increased by \$14,929,814 (27.8 percent) during the current fiscal year.

Investment earned by the City's general investment portfolio totaled \$287,766 for an average rate of return of 0.74 percent. The average daily investment portfolio was \$38,633,724.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City of Rockville Maryland's basic financial statements. The City of Rockville, Maryland's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements:

The government-wide financial statements are designed to provide readers with a broad overview of the City of Rockville, Maryland's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all the City of Rockville, Maryland's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Rockville, Maryland is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Rockville, Maryland that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Rockville, Maryland include general government, public safety, highways and streets, economic development, community development, community services, and culture and recreation. The business-type activities of the City of Rockville, Maryland include water, sewer, refuse, storm water management, parking and golf course operations.

The government-wide financial statements can be found on pages 21-22 of this report.

Fund Financial Statements:

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Rockville, Maryland, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Rockville, Maryland can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Rockville, Maryland maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, and capital projects fund, all of which are considered to be major funds. Data from the other three governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City of Rockville, Maryland adopts an annual appropriated budget for its general fund, special revenue funds, and debt service fund. Budgetary comparison statements can be found on pages 52, 57 and 58, respectively.

The basic governmental fund financial statements can be found on pages 23-26 of this report.

Proprietary funds. The City of Rockville, Maryland maintains six different enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Rockville, Maryland uses enterprise funds to account for its water, sewer, refuse, storm water management, parking, and golf course operations.

Enterprise funds provide the same type of information as the government-wide financial statements, only in more detail. The enterprise fund financial statements provide separate information for the water, sewer, refuse and storm water management operations, which are considered the major funds of the City of Rockville, Maryland. While the refuse and golf course funds do not meet the requirements of a major fund, management has elected to report these funds as major.

The basic enterprise fund financial statements can be found on pages 27-30 of this report.

Fiduciary funds. The trust fund is used to account for resources held for the benefit of parties outside the government. The trust fund is not reflected in the government-wide financial statement because the resources of this fund are not available to support the City of Rockville, Maryland's own programs. The accounting used for the trust fund is much like that used for proprietary funds.

The pension trust funds financial statement can be found on pages 31 and 32 of his report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 33 through 50 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Rockville, Maryland's budgetary comparison schedules for major governmental funds. Required supplementary information can be found beginning on page 51 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 55 through 57 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Rockville, Maryland, assets exceeded liabilities by \$91,720,937 at the close of the most recent fiscal year.

By far the largest portion of the City of Rockville, Maryland's net assets (53.9 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City of Rockville, Maryland uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Rockville, Maryland's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF ROCKVILLE MARYLAND'S Net Assets

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|----------------------------|---------------------|-----------------------------|---------------------|----------------------|----------------------|
| | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 |
| Current and other assets | \$36,926,412 | \$28,587,331 | \$25,961,321 | \$24,643,602 | \$62,887,733 | \$ 53,230,933 |
| Capital assets | <u>34,723,276</u> | <u>59,641,893</u> | <u>52,300,620</u> | <u>58,469,640</u> | <u>87,023,896</u> | <u>118,111,533</u> |
| Total assets | \$71,649,688 | \$88,229,224 | \$78,261,941 | \$83,113,242 | \$149,911,629 | \$171,342,466 |
| Long-term liabilities outstanding | 37,568,257 | 48,551,702 | 19,011,378 | 23,287,220 | 56,579,635 | 71,838,922 |
| Other liabilities | <u>4,661,530</u> | <u>4,995,788</u> | <u>1,661,617</u> | <u>2,786,819</u> | <u>6,323,147</u> | <u>7,782,607</u> |
| Total liabilities | \$42,229,787 | \$53,547,490 | \$20,672,995 | \$26,074,039 | \$ 62,902,782 | \$ 79,621,529 |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | (572,168) | 25,074,886 | 33,892,443 | 43,718,212 | 33,320,275 | 68,793,098 |
| Restricted | 14,715,000 | 1,800,000 | 378,517 | 378,517 | 15,093,517 | 2,178,517 |
| Unrestricted | <u>15,277,069</u> | <u>7,806,848</u> | <u>23,317,986</u> | <u>12,942,474</u> | <u>38,595,055</u> | <u>20,749,322</u> |
| Total net assets | <u>\$29,419,901</u> | <u>\$34,681,734</u> | <u>\$57,588,946</u> | <u>\$57,039,203</u> | <u>\$ 87,008,847</u> | <u>\$ 91,720,937</u> |

An additional portion of the City of Rockville Maryland's net assets (2.4 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$20,749,322) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Rockville, Maryland is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities for the most recent fiscal year.

The governmental activities investment in capital assets, net of related debt increased by \$25,647,054. Almost all of this increase is related to construction in progress cost and new issued debt for the city's Town Center redevelopment. Also, restricted net assets decreased by \$12,915,000, which was related to the payment of refunded general obligation bonds during the current fiscal year.

CITY OF ROCKVILLE MARYLAND'S Changes in Net Assets

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|----------------------------|---------------------|-----------------------------|---------------------|---------------------|---------------------|
| | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 7,899,761 | \$ 7,628,331 | \$16,014,981 | \$15,571,211 | \$23,914,742 | \$23,199,542 |
| Operating grants and contributions | 1,535,694 | 1,552,619 | - | - | 1,535,694 | 1,552,619 |
| Capital grants and contributions | 3,429,666 | 3,101,162 | - | - | 3,429,666 | 3,101,162 |
| General revenues: | | | | | | |
| Property taxes | 21,939,085 | 22,963,744 | - | - | 21,939,085 | 22,963,744 |
| Other taxes | 11,407,255 | 11,293,989 | - | - | 11,407,255 | 11,293,989 |
| Other | 738,478 | 662,950 | - | 188,274 | 738,478 | 851,224 |
| Total revenues | \$46,949,939 | \$47,202,795 | \$16,014,981 | \$15,759,485 | \$62,964,920 | \$62,962,280 |
| Expenses: | | | | | | |
| General government | \$ 8,918,307 | \$ 8,621,681 | - | - | \$ 8,918,307 | \$8,621,681 |
| Community development block grant | 401,357 | 412,712 | - | - | 401,357 | 412,712 |
| Community development | 1,471,759 | 1,534,045 | - | - | 1,471,759 | 1,534,045 |
| Community services | 1,268,156 | 1,319,078 | - | - | 1,268,156 | 1,319,078 |
| Public safety | 7,298,573 | 7,933,531 | - | - | 7,298,573 | 7,933,531 |
| Public works | 5,567,832 | 6,002,839 | - | - | 5,567,832 | 6,002,839 |
| Recreation and Parks | 14,875,969 | 14,347,079 | - | - | 14,875,969 | 14,347,079 |
| Nondepartmental | 1,841,600 | 2,259,160 | - | - | 1,841,600 | 2,259,160 |
| Interest on long term debt | 761,419 | 804,164 | - | - | 761,419 | 804,164 |
| Water | - | - | 4,296,885 | 4,410,814 | 4,296,885 | 4,410,814 |
| Sewer | - | - | 4,299,970 | 4,435,977 | 4,299,970 | 4,435,977 |
| Refuse | - | - | 4,024,746 | 4,177,891 | 4,024,746 | 4,177,891 |
| Parking | - | - | 63,860 | 114,945 | 63,860 | 114,945 |
| Stormwater management | - | - | 623,958 | 747,521 | 623,958 | 747,521 |
| Golf Course | - | - | 1,195,422 | 1,128,753 | 1,195,422 | 1,128,753 |
| Total expenses | \$42,404,972 | \$43,234,289 | \$14,504,841 | \$15,015,901 | \$56,909,813 | \$58,250,190 |
| Increase in net assets before transfers | 4,544,967 | 3,968,506 | 1,510,140 | 743,584 | 6,055,107 | 4,712,090 |
| Transfers | 1,231,384 | 1,293,327 | (1,231,384) | (1,293,327) | - | - |
| Increase in net assets | 5,776,351 | 5,261,833 | 278,756 | (549,743) | 6,055,107 | 4,712,090 |
| Net assets – beginning | 23,643,550 | 29,419,901 | 57,310,190 | 57,588,946 | 80,953,740 | 87,008,847 |
| Net assets – ending | \$29,419,901 | \$34,681,734 | \$57,588,946 | \$57,039,203 | \$87,008,847 | \$91,720,937 |

Governmental activities. Governmental activities net assets were \$34,681,734 at the end of the fiscal year, an increase of \$5,261,833 over beginning net assets. Property taxes increased by \$1,024,659 (4.7 percent) during the year. This increase is the product of increased assessed values and new construction. Public safety expenses increased by \$634,958, which represents an increase of 8.7% compared to the previous year. Almost three quarters of the 8.7% was due to increased wages and benefits for police personnel and depreciation expenses for police assets and the remaining increase is due to increased costs for the licenses and inspections divisions.

Business-type activities. Business-type activities total net assets decreased by a modest \$549,743, accounting for 1.0 percent of the reduction in the business-type's net assets. For the most part, increases in expense closely paralleled inflation. Water and sewer revenues was stable despite a rate increase as a result of reduced consumption during above average rainfall and water/sewer connection revenue dropped due to reduced development.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City of Rockville, Maryland uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City of Rockville, Maryland's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Rockville, Maryland's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City of Rockville, Maryland's governmental funds reported combined ending fund balances of \$20,512,400, an increase of \$2,322,679 in comparison with the prior year. Approximately one half of this total amount (\$9,499,200) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior period (\$4,882,516); 2) to pay debt service (\$3,544,442); or 3) for a variety of other restricted purposes (\$2,586,242).

The general fund is the chief operating fund of the City of Rockville, Maryland. At the end of the current fiscal year, unreserved fund balance of the general fund was \$10,595,897, while total fund balance reached \$11,581,311. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 26.9 percent of total general fund expenditures, while total fund balance represents 29.4 percent of that same amount.

The fund balance of the City of Rockville, Maryland's general fund increased by \$1,009,503 during the current fiscal year. This increase was due to higher than anticipated income revenue and lower than anticipated spending in several categories.

The debt service fund has a total fund balance of \$3,544,442 all of which is reserved for the payment of debt service. The net increase in fund balance during the current year in the debt service fund was \$35,216.

Proprietary funds. The City of Rockville, Maryland's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water, Sewer, Refuse, Parking, Stormwater Management, and RedGate Golf Course Funds at the end of the year amounted to \$2,751,498, \$924,166, \$430,201, \$(432,521), \$9,824,818 and \$(555,688) respectively.

GENERAL FUND BUDGETARY HIGHLIGHTS

The difference between the original budget and the final amended budget was an increase of 0.6% during the year (\$557,185 increase in appropriations) and can be briefly summarized as follows:

- \$867,500 increase in pay-go contributions for construction projects
- \$477,979 decrease to debt service fund for bond payments
- \$167,664 increase to various expenditure accounts

This increase of \$557,185 was to be funded from available fund balance. Funds drawn from the fund balance are to be used only for expenditures or transfers of a non-recurring nature. During the year, however, revenues exceeded budgetary estimates and expenditures were less than budgetary estimates, thus eliminating the need to draw upon existing fund balance.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. The City of Rockville, Maryland's investment in capital assets for its governmental and business type activities as of June 30, 2004, amounts to \$118,111,533 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, machinery and equipment, park facilities, roads, highways, and bridges and water and sewer improvements. The total increase in the City of Rockville, Maryland's investment in capital assets for the current fiscal year was 35.7 percent (a 71.8 percent increase for governmental activities and a 11.8 percent increase for business-type activities).

Major capital asset events during the current fiscal year included the following:

- Construction on the wastewater treatment facilities for the Sewer Fund; construction costs as of the close of the fiscal year were \$3,945,889.
A variety of street construction projects and concrete and asphalt projects for existing streets; construction costs as of the end of the current fiscal year were \$2,306,471.
Construction began on the City's redevelopment of its Town Center; construction and acquisition costs as of the end of the current fiscal year were \$19,626,099.

CITY OF ROCKVILLE MARYLAND'S Capital Assets, Net of Accumulated Depreciation

| | Governmental Activities | | Business-Type Activities | | Total | |
|-----------------------------------|----------------------------|---------------------|-----------------------------|---------------------|---------------------|----------------------|
| | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 |
| Land | \$ 7,843,832 | \$ 7,843,832 | \$ 2,058,940 | \$ 2,058,940 | \$ 9,902,772 | \$ 9,902,772 |
| Buildings | 8,440,824 | 8,598,801 | 1,609,139 | 1,478,842 | 10,049,963 | 10,077,643 |
| Improvements other than buildings | 3,335,338 | 3,208,950 | 27,234,633 | 26,731,938 | 30,569,971 | 29,940,888 |
| Machinery and equipment | 2,924,884 | 2,665,076 | 1,245,279 | 968,041 | 4,170,163 | 3,633,117 |
| Infrastructure | 452,861 | 847,410 | - | - | 452,861 | 847,410 |
| Purchased capacity | - | - | 14,752,554 | 14,445,924 | 14,752,554 | 14,445,924 |
| Construction in progress | <u>11,725,537</u> | <u>36,477,824</u> | <u>5,400,075</u> | <u>12,785,955</u> | <u>17,125,612</u> | <u>49,263,779</u> |
| Total | <u>\$34,723,276</u> | <u>\$59,641,893</u> | <u>\$52,300,620</u> | <u>\$58,469,640</u> | <u>\$87,023,896</u> | <u>\$118,111,533</u> |

Additional information on the City of Rockville, Maryland's capital assets can be found in note (2) C on pages 39-40 of this report.

Long-term debt. At the end of the current fiscal year, the City of Rockville, Maryland had a total debt outstanding of \$71,838,923, which is backed by the full faith and credit of the government.

CITY OF ROCKVILLE MARYLAND'S Outstanding Debt

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total</u> | |
|--|------------------------------------|---------------------|-------------------------------------|---------------------|---------------------|---------------------|
| | <u>2003</u> | <u>2004</u> | <u>2003</u> | <u>2004</u> | <u>2003</u> | <u>2004</u> |
| General obligation bonds | \$35,295,444 | \$45,982,007 | \$18,408,177 | \$22,651,428 | \$53,703,621 | \$68,633,435 |
| Accrued obligations for compensated absences | <u>2,272,813</u> | <u>2,569,695</u> | <u>603,201</u> | <u>635,793</u> | <u>2,876,014</u> | <u>3,205,488</u> |
| Total long-term liabilities | <u>\$37,568,257</u> | <u>\$48,551,702</u> | <u>\$19,011,378</u> | <u>\$23,287,221</u> | <u>\$56,579,635</u> | <u>\$71,838,923</u> |

The City of Rockville, Maryland's total bonded debt increased by \$14,929,814 (27.8 percent) compared to last fiscal year. The key factor in this increase was a \$19,315,000 general obligation bond issuance for the capital projects, parking, refuse and golf funds and the City issued \$12,350,000 in bond anticipation notes. The City paid off \$10,296,630 of 1993 series general obligation bonds on September 8, 2003. Also, compensated absences increased by \$329,474 during the fiscal year.

The City of Rockville, Maryland maintains a "AA+" rating from Standard & Poor's and a "Aa1" rating from Moody's Investor Service for general obligation debt.

The City's performance against key quantitative measures specified within the fiscal policies is as follows for debt issuance:

Key Financial Ratios Compared to Policy Targets Historical Performance

| | <u>Policy Targets</u> | <u>As of June 30, 2004</u> | <u>As of June 30, 2003</u> | <u>As of June 30, 2002</u> | <u>As of June 30, 2001</u> |
|--|---------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| Adjusted Net Bonded Debt as a Percentage of Assessed Value | 2.0%/0.8% ¹ | 0.6%/0.4% ^{1,3} | 0.5%/0.3% ^{1,2} | 0.2% | 0.7% |
| Adjusted Net Bonded Debt per Capita | \$700 | 737/523 ³ | \$607/326 ² | \$304 | \$330 |
| Adjusted Net Bonded Debt per Capita as a Percentage of Per Capita Income | 2.5% | 2.7%/1.9% ³ | 2.0%/1.1% ² | 1.0% | 1% |
| Net Bonded Debt Service Costs as a Percentage Of Expenditures for the General, Special Revenue, and Debt Service Funds | 15.0% | 7.5% | 6.2% | 7.7% | 9.3% |
| Unreserved undesignated General Fund fund balance as a percentage of General Fund revenue. | 15.0% | 20.6% | 21.2% | 21.6% | 23.1% |

The policy targets were all met.

¹ As the result of a change to state law, all real property was assessed at 100 percent of value, rather than 40 percent for the tax year beginning July 1, 2001.

On September 8, 2003, the City paid off \$14,715,000 of 1993 series general obligation bonds, which were refunded on June 1, 2003, see footnote (3) E for details. Based upon the above information the restated ratios as of September 8 for adjusted net bonded debt to assessed value is 0.3%, the adjusted net bonded debt per capita would be \$326 and adjusted net bonded debt per capita as a percentage of per capita income would be 1.1% and the ratio for adjusted net bonded debt to assessed value is 0.3%.

The City issued \$12,350,000 of short-term Bond Anticipation Notes (BAN's) in June 2004 for costs associated with the redevelopment of Town Center. The BAN's should be repaid with the developer contributions during FY 2005. Based upon the above information the restated dollar amount for adjusted net bonded debt per capital would be \$523, adjusted net bonded debt per capita as a percentage of per capita income would be 1.9% and the ratio for adjusted net bonded debt to assessed value is 0.4%.

Additional information on the City of Rockville, Maryland's long-term debt can be found in note (2) E on pages 41-45 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The unemployment rate for the City of Rockville, Maryland and the State of Maryland compares favorably to the national average rate.

The occupancy rate of the government's business district has remained consistent for the past three years. Inflation in the region has been low, as it has been across the country.

All of these factors were considered in preparing the City of Rockville, Maryland's budget for the 2004 fiscal year.

An increase in the City's assessed value as the result of both new development and the reassessment of the existing base will avoid the need to raise taxes during the 2005 fiscal year.

The water, sewer, and refuse rates were increased for the 2005 budget year. The water and sewer rates were increased by an average of 3.6 percent for all customers, while the increase in the refuse rate was 8.8 percent. The water and sewer rates affected both residential and industrial consumers by approximately the same percentage, the refuse rate increase applied only to residential customers. These rate increases were necessary to finance debt service on the new debt issued during the current fiscal year by the refuse and sewer funds and for the continuing operating cost increases of all three funds.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Rockville, Maryland's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, 111 Maryland Avenue, City of Rockville, Maryland, Rockville, Maryland, 20850.

Basic Financial Statements

CITY OF ROCKVILLE, MARYLAND

Statement of Net Assets June 30, 2004

| | Governmental <u>Activities</u> | Business-type <u>Activities</u> | <u>Total</u> |
|---|-----------------------------------|------------------------------------|----------------------|
| Assets | | | |
| Equity in pooled cash and cash equivalents | \$20,144,947 | \$21,192,196 | \$41,337,143 |
| Property tax receivable, net | 978,603 | - | 978,603 |
| Accounts receivable, net | 188,296 | 2,804,208 | 2,992,504 |
| Due from other governments | 2,300,922 | - | 2,300,922 |
| Assessments receivable | 28,204 | 17,992 | 46,196 |
| Other assets | 847,892 | 13,390 | 861,282 |
| Unbilled assessments receivable | 2,298,467 | 237,299 | 2,535,766 |
| Restricted assets: | | | |
| Equity in pooled cash and cash equivalents | 1,800,000 | 378,517 | 2,178,517 |
| Capital assets (net of accumulated depreciation): | | | |
| Land | 7,843,832 | 2,058,940 | 9,902,772 |
| Buildings | 8,598,801 | 1,478,842 | 10,077,643 |
| Improvements other than buildings | 3,208,950 | 26,731,938 | 29,940,888 |
| Equipment | 2,665,076 | 968,041 | 3,633,117 |
| Construction in progress | 36,477,824 | 12,785,955 | 49,263,779 |
| Infrastructure | 847,410 | - | 847,410 |
| Purchase capacity | - | 14,445,924 | 14,445,924 |
| Total assets | <u>\$88,229,224</u> | <u>\$83,113,242</u> | <u>\$171,342,466</u> |
| Liabilities | | | |
| Current liabilities: | | | |
| Accounts payable | \$ 2,216,266 | \$ 1,699,362 | \$ 3,915,628 |
| Internal balances | (439,014) | 439,014 | - |
| Accrued liabilities | 1,258,109 | 451,564 | 1,709,673 |
| Unearned revenue | 789,001 | 72,993 | 861,994 |
| Retainages payable | 135,380 | 107,259 | 242,639 |
| Deposits and other liabilities | 1,036,046 | 16,626 | 1,052,672 |
| Noncurrent liabilities: | | | |
| Due within one year: | | | |
| Compensated absences | 1,875,877 | 464,129 | 2,340,006 |
| Bonds payable | 3,126,989 | 1,661,602 | 4,788,591 |
| Due in more than one year: | | | |
| Compensated absences | 693,818 | 171,664 | 865,482 |
| Bonds payable | 42,855,018 | 20,989,826 | 63,844,844 |
| Total liabilities | <u>\$53,547,490</u> | <u>\$26,074,039</u> | <u>\$ 79,621,529</u> |
| Net Assets | | | |
| Invested in capital assets, net of related debt | 25,074,886 | 43,718,212 | 68,793,098 |
| Restricted for debt service | - | 378,517 | 378,517 |
| Restricted for capital projects | 1,800,000 | - | 1,800,000 |
| Unrestricted | 7,806,848 | 12,942,474 | 20,749,322 |
| Total net assets | <u>\$34,681,734</u> | <u>\$57,039,203</u> | <u>\$ 91,720,937</u> |

See accompanying notes to the basic financial statements.

CITY OF ROCKVILLE, MARYLAND

Statement of Activities For the Year Ended June 30, 2004

| Functions/Programs | Program Revenues. | | | |Net (Expense) Revenue and Changes in Net AssetsPrimary Government..... | | Total |
|--------------------------------------|---------------------|-------------------------|--|--|---|-----------------------------|------------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-type Activities | |
| Primary government: | | | | | | | |
| Governmental activities: | | | | | | | |
| General government | \$ 8,621,681 | \$ 498,049 | \$ - | \$ 46,388 | \$ (8,077,244) | \$ - | \$ (8,077,244) |
| Community development block grant | 412,712 | - | 412,712 | - | - | - | - |
| Community development | 1,534,045 | 1,579,469 | - | - | 45,424 | - | 45,424 |
| Community services | 1,319,078 | 354,679 | 331,283 | 2,080,950 | 1,447,834 | - | 1,447,834 |
| Public safety | 7,933,531 | 74,814 | 594,440 | - | (7,264,277) | - | (7,264,277) |
| Public works | 6,002,839 | 578,549 | - | 753,222 | (4,671,068) | - | (4,671,068) |
| Recreation and parks | 14,347,079 | 4,240,368 | 214,184 | 220,602 | (9,671,925) | - | (9,671,925) |
| Non-departmental | 2,259,160 | 218,428 | - | - | (2,040,732) | - | (2,040,732) |
| Interest on long-term debt | 804,164 | 83,975 | - | - | (720,189) | - | (720,189) |
| Total governmental activities | <u>\$43,234,289</u> | <u>\$ 7,628,331</u> | <u>\$1,552,619</u> | <u>\$3,101,162</u> | <u>\$ (30,952,177)</u> | <u>\$ -</u> | <u>\$ (30,952,177)</u> |
| Business-type activities: | | | | | | | |
| Water | 4,410,814 | 3,695,205 | - | - | - | (715,609) | (715,609) |
| Sewer | 4,435,977 | 5,300,119 | - | - | - | 864,142 | 864,142 |
| Refuse | 4,177,891 | 4,165,770 | - | - | - | (12,121) | (12,121) |
| Parking | 114,945 | 511,154 | - | - | - | 396,209 | 396,209 |
| Storm water management | 747,521 | 747,894 | - | - | - | 373 | 373 |
| Golf course | 1,128,753 | 1,151,069 | - | - | - | 22,316 | 22,316 |
| Total business-type activities | <u>\$15,015,901</u> | <u>\$15,571,211</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 555,310</u> | <u>\$ 555,310</u> |
| Total primary government | <u>\$58,250,190</u> | <u>\$23,199,542</u> | <u>\$1,552,619</u> | <u>\$3,101,162</u> | <u>\$ (30,952,177)</u> | <u>\$ 555,310</u> | <u>\$ (30,396,867)</u> |
| General revenues: | | | | | | | |
| Property taxes | | | | | \$ 22,963,744 | \$ - | \$ 22,963,744 |
| Income taxes | | | | | 7,019,649 | - | 7,019,649 |
| Gas and motor vehicle taxes | | | | | 1,991,434 | - | 1,991,434 |
| County tax duplication payment | | | | | 1,259,511 | - | 1,259,511 |
| Admissions and amusement taxes | | | | | 1,023,395 | - | 1,023,395 |
| Use of money and property | | | | | 163,345 | 188,274 | 351,619 |
| Other revenue | | | | | 499,605 | - | 499,605 |
| Transfers | | | | | 1,293,327 | (1,293,327) | - |
| Total general revenues and transfers | | | | | <u>\$ 36,214,010</u> | <u>\$ (1,105,053)</u> | <u>\$ 35,108,957</u> |
| Change in net assets | | | | | 5,261,833 | (549,743) | 4,712,090 |
| Net assets – beginning | | | | | <u>29,419,901</u> | <u>57,588,946</u> | <u>87,008,847</u> |
| Net assets – ending | | | | | <u>\$ 34,681,734</u> | <u>\$ 57,039,203</u> | <u>\$ 91,720,937</u> |

See accompanying notes to the basic financial statements.

CITY OF ROCKVILLE, MARYLAND

Balance Sheet Governmental Funds June 30, 2004

| | <u>General</u> | <u>Debt Service</u> | <u>Capital Projects</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|---------------------|-------------------------|-----------------------------|---|---|
| Assets | | | | | |
| Equity in pooled cash and cash equivalents | \$11,780,392 | \$3,979,977 | \$5,922,272 | \$262,306 | \$21,944,947 |
| Property taxes receivable, net | 978,603 | - | - | - | 978,603 |
| Accounts receivable, net | 96,919 | - | - | 91,377 | 188,296 |
| Interfund receivable | 456,428 | - | - | - | 456,428 |
| Due from other governments | 1,901,389 | - | 399,533 | - | 2,300,922 |
| Assessments receivable | - | 28,204 | - | - | 28,204 |
| Other assets | 801,536 | 46,130 | - | 227 | 847,893 |
| Unbilled assessments receivable | - | 2,298,467 | - | - | 2,298,467 |
| Total assets | <u>\$16,015,267</u> | <u>\$6,352,778</u> | <u>\$6,321,805</u> | <u>\$262,533</u> | <u>\$29,043,760</u> |
| Liabilities and Fund Balances | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$ 1,017,927 | \$ 97,365 | \$1,100,091 | \$ 883 | \$ 2,216,266 |
| Interfund payable | - | - | - | 17,414 | 17,414 |
| Accrued liabilities | 1,031,979 | - | - | - | 1,031,979 |
| Deferred revenue | 978,603 | 2,326,671 | - | - | 3,305,274 |
| Unearned revenue | 789,001 | - | - | - | 789,001 |
| Retainages payable | 30,908 | - | 104,472 | - | 135,380 |
| Deposits and other liabilities | 585,538 | 384,300 | 7,500 | 58,708 | 1,036,046 |
| Total liabilities | <u>\$ 4,433,956</u> | <u>\$2,808,336</u> | <u>\$1,212,063</u> | <u>\$ 77,005</u> | <u>\$ 8,531,360</u> |
| Fund balances: | | | | | |
| Reserved for encumbrances | 199,172 | - | 4,683,344 | - | 4,882,516 |
| Reserved for self insurance deposit | 261,393 | - | - | - | 261,393 |
| Reserved for inventory | 274,849 | - | - | - | 274,849 |
| Reserved for advance | 250,000 | - | - | - | 250,000 |
| Reserved for debt service | - | 3,544,442 | - | - | 3,544,442 |
| Reserved for capital projects | - | - | 1,800,000 | - | 1,800,000 |
| Unreserved: | | | | | |
| Designated for future expenditures | 1,336,103 | - | - | - | 1,336,103 |
| Special activities fund | - | - | - | 276,905 | 276,905 |
| Undesignated | 9,259,794 | - | (1,373,602) | - | 7,886,192 |
| Total fund balances | <u>\$11,581,311</u> | <u>\$ 3,544,442</u> | <u>\$5,109,742</u> | <u>\$276,905</u> | <u>\$20,512,400</u> |
| Total liabilities and fund balance | <u>\$16,015,267</u> | <u>\$ 6,352,778</u> | <u>\$6,321,805</u> | <u>\$353,910</u> | <u>\$29,043,760</u> |

See accompanying notes to the basic financial statements.

CITY OF ROCKVILLE, MARYLAND

Reconciliation of Total Government Fund Balances to Net Assets of Governmental Activities June 30, 2004

| | | |
|---|---------------------|---------------------|
| Total fund balances – governmental funds | | \$20,512,400 |
| Amounts reported for governmental activities in the statement of net assets are different because: | | |
| Capital assets used in governmental activities are not financial resources resources and therefore are not reported as assets in governmental funds. | | |
| Cost of capital assets | \$72,919,909 | |
| Accumulated depreciation | <u>(13,278,016)</u> | 59,641,893 |
| Deferred revenues are not financial resources in the governmental funds, therefore the liability is eliminated and total net assets are increased | | 3,305,274 |
| Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of: | | |
| Compensated absences | (2,569,695) | |
| General obligation bonds payable and issuance costs | (45,982,008) | |
| Accrued interest on the general obligation bonds | <u>(226,130)</u> | <u>(48,777,833)</u> |
| Total net assets – governmental activities | | <u>\$34,681,734</u> |

See accompanying notes to the basic financial statements.

CITY OF ROCKVILLE, MARYLAND

Statement of Revenue, Expenditures, and Changes in Fund Balances Governmental Funds For the Year Ended June 30, 2004

| | <u>General</u> | <u>Debt Service</u> | <u>Capital Projects</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|----------------------|-------------------------|-----------------------------|---|---|
| Revenue | | | | | |
| Property taxes | \$23,386,926 | \$ - | \$ - | \$ - | \$ 23,386,926 |
| Assessments | - | 367,247 | | | 367,247 |
| Revenue from other governments: | | | | | |
| Community development block grant | - | | | 412,712 | 412,712 |
| Income taxes | 7,019,049 | | | | 7,019,049 |
| Gas and motor vehicle taxes | 1,991,434 | | | | 1,991,434 |
| County tax duplication payment | 1,259,511 | | | | 1,259,511 |
| Admissions and amusement taxes | 1,023,395 | | | | 1,023,395 |
| Grants and other governmental revenue | 1,427,093 | | 498,256 | 66,895 | 1,992,244 |
| Licenses and permits | 1,699,991 | | | - | 1,699,991 |
| Charges for services | 4,368,465 | | 2,583,444 | - | 6,951,909 |
| Use of money and property | 724,632 | 35,185 | 6,762 | 3,392 | 769,971 |
| Fines and forfeitures | 285,253 | - | - | - | 285,253 |
| Other revenue | 1,698,046 | | 12,700 | 227,050 | 1,937,796 |
| Total revenue | <u>\$44,883,795</u> | <u>\$ 402,432</u> | <u>\$ 3,101,162</u> | <u>\$ 710,049</u> | <u>\$ 49,097,438</u> |
| Expenditures | | | | | |
| Current operations: | | | | | |
| General government | \$ 8,185,223 | \$ - | \$ - | \$ - | \$ 8,185,223 |
| Community development block grant | | | | 412,712 | 412,712 |
| Community development | 1,482,277 | | | 146,000 | 1,628,277 |
| Community services | 1,287,759 | | | 208,274 | 1,496,033 |
| Public safety | 7,603,115 | | | - | 7,603,115 |
| Public works | 5,232,331 | | | - | 5,232,331 |
| Recreation and parks | 13,323,501 | | | - | 13,323,501 |
| Nondepartmental | 2,311,980 | | | - | 2,311,980 |
| Capital outlay | - | | 26,821,896 | - | 26,821,896 |
| Debt service | - | 3,571,114 | - | - | 3,571,114 |
| Total expenditures | <u>\$39,426,186</u> | <u>\$ 3,571,114</u> | <u>\$ 26,821,896</u> | <u>\$ 766,986</u> | <u>\$ 70,586,182</u> |
| Excess (deficiency) of revenue over expenditures | <u>\$ 5,457,609</u> | <u>\$(3,168,682)</u> | <u>\$(23,720,734)</u> | <u>\$ (56,937)</u> | <u>\$(21,488,744)</u> |
| Other Financing Sources (Uses) | | | | | |
| Transfers in | 8,369 | 3,120,683 | 1,371,998 | - | 4,501,050 |
| Transfers out | (4,456,475) | - | - | (81,367) | (4,537,842) |
| Premium on general obligation debt | - | 83,215 | - | - | 83,215 |
| General obligation bonds issued | - | - | 23,765,000 | - | 23,765,000 |
| Total other financing sources (uses) | <u>\$(4,448,106)</u> | <u>\$ 3,203,898</u> | <u>\$ 25,136,998</u> | <u>\$ (81,367)</u> | <u>\$ 23,811,423</u> |
| Net change in fund balances | \$ 1,009,503 | \$ 35,216 | \$ 1,416,264 | \$ (138,304) | \$ 2,322,679 |
| Fund balances at beginning of year | <u>10,571,808</u> | <u>3,509,226</u> | <u>3,693,478</u> | <u>415,209</u> | <u>18,189,721</u> |
| Fund balances at end of year | <u>\$11,581,311</u> | <u>\$ 3,544,442</u> | <u>\$ 5,109,742</u> | <u>\$ 276,905</u> | <u>\$ 20,512,400</u> |

See accompanying notes to the basic financial statements.

CITY OF ROCKVILLE, MARYLAND

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds To the Statement of Activities

For the Year Ended June 30, 2004

| | |
|--|--------------|
| Total net change in fund balances-total governmental funds | \$ 2,322,679 |
|--|--------------|

Amounts reported for governmental activities in the statement of activities are different because:

| | |
|--|------------|
| Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays of \$26,288,702 exceeded depreciation of \$1,370,085. | 24,918,617 |
|--|------------|

| | |
|--|--------------|
| Some of the capital assets acquired this year were through general obligation bonds. The amount funded by the agreements is reported in the governmental funds as a source of financing. On the other hand, the bonds are not revenues in the statement of activities, but rather constitute long-term liabilities in the statement of net assets. Also, governmental funds report the effect of issuance costs, premium, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. | (23,679,220) |
|--|--------------|

| | |
|---|-----------|
| Repayment of bonds principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. | 2,696,026 |
|---|-----------|

| | |
|---|-----------|
| Because the deferred revenue will not be collected for several months after the City's fiscal year ends, it is not considered "available" revenue in the governmental funds. Deferred revenue decreased by this amount this year. | (685,291) |
|---|-----------|

| | |
|---|-----------|
| In the statement of activities, compensated absences are measured by the amounts earned during the year. In governmental funds, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, vacation and sick leave earned of \$304,462 exceeded amounts used of \$7,580. | (296,882) |
|---|-----------|

| | |
|--|-----------------|
| Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is the result of accrued interest on the financing agreements. | <u>(14,096)</u> |
|--|-----------------|

| | |
|---|---------------------|
| Change in net assets of governmental activities | <u>\$ 5,261,833</u> |
|---|---------------------|

See accompanying notes to the basic financial statements.

CITY OF ROCKVILLE, MARYLAND

Statement of Net Assets Proprietary Funds June 30, 2004

Business-type Activities – Enterprise Funds

| | Water Facility Fund | Sanitary Sewer Fund | Refuse Fund | Parking Fund | Stormwater Management Fund | RedGate Golf Course Fund | Total Business- Type Activities Funds |
|--|------------------------|------------------------|---------------------|---------------------|----------------------------------|--------------------------------|---|
| Assets | | | | | | | |
| Current Assets: | | | | | | | |
| Equity in pooled cash and cash equivalents | \$ 2,826,158 | \$ 3,359,841 | \$ - | \$ 5,481,549 | \$ 9,903,165 | \$ - | \$21,570,713 |
| Accounts receivable, net | 655,202 | 1,092,017 | 1,056,989 | - | - | - | 2,804,208 |
| Assessments receivable | 8,856 | 9,136 | - | - | - | - | 17,992 |
| Purchased capacity, current position | - | 305,589 | - | - | - | - | 305,589 |
| Other receivable/assets | 2,522 | 1,554 | 649 | 430 | 8,233 | 2 | 13,390 |
| Total current assets | <u>\$ 3,492,738</u> | <u>\$ 4,768,137</u> | <u>\$ 1,057,638</u> | <u>\$ 5,481,979</u> | <u>\$ 9,911,398</u> | <u>\$ 2</u> | <u>\$24,711,892</u> |
| Noncurrent Assets: | | | | | | | |
| Unbilled assessments receivable | <u>114,669</u> | <u>122,630</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>237,299</u> |
| Capital Assets | | | | | | | |
| Utility plant and equipment | \$34,287,799 | \$26,920,202 | \$3,298,920 | \$1,824,000 | \$ 5,128,718 | \$3,954,872 | \$75,414,511 |
| Less – accumulated depreciation | (15,188,068) | (11,370,577) | (2,250,047) | (6,666) | (1,367,964) | (1,207,473) | (31,390,795) |
| Net capital assets | \$19,099,731 | \$15,549,625 | \$1,048,873 | \$1,817,334 | \$ 3,760,754 | \$2,747,399 | \$44,023,716 |
| Purchased capacity, long-term, net | - | 14,140,335 | - | - | - | - | 14,140,335 |
| Total assets | <u>\$22,707,138</u> | <u>\$34,580,727</u> | <u>\$2,106,511</u> | <u>\$7,299,313</u> | <u>\$13,672,152</u> | <u>\$2,747,401</u> | <u>\$83,113,242</u> |
| Liabilities | | | | | | | |
| Current Liabilities: | | | | | | | |
| Bonds payable within one year | \$ 660,220 | 659,871 | 165,566 | \$ 170,000 | \$ - | \$ 5,945 | \$ 1,661,602 |
| Accounts payable | 139,426 | 541,476 | 86,094 | 866,544 | 51,929 | 13,893 | 1,699,362 |
| Interfund payable | - | - | 101,916 | - | - | 337,098 | 439,014 |
| Accrued liabilities | 163,295 | 108,705 | 114,809 | 21,425 | 11,216 | 32,114 | 451,564 |
| Compensated absences | 207,040 | 14,470 | 156,671 | 1,118 | 15,267 | 69,563 | 464,129 |
| Unearned revenue | - | - | - | - | - | 72,993 | 72,993 |
| Retainages payable | 83,546 | 16,892 | - | - | 2,521 | 4,300 | 107,259 |
| Deposits and other liabilities | 16,626 | - | - | - | - | - | 16,626 |
| Total current liabilities | <u>\$ 1,270,153</u> | <u>\$ 1,341,414</u> | <u>\$ 625,056</u> | <u>\$ 1,059,087</u> | <u>\$ 80,933</u> | <u>\$ 535,906</u> | <u>\$ 4,912,549</u> |
| Noncurrent Liabilities: | | | | | | | |
| Compensated absences | 76,576 | 5,352 | 57,947 | 413 | 5,647 | 25,729 | 171,664 |
| Bonds payable | 6,320,936 | 8,893,042 | 554,231 | 4,833,363 | - | 388,254 | 20,989,826 |
| Total noncurrent liabilities | <u>\$ 6,397,512</u> | <u>\$ 8,898,394</u> | <u>\$ 612,178</u> | <u>\$ 4,833,776</u> | <u>\$ 5,647</u> | <u>\$ 413,983</u> | <u>\$21,161,490</u> |
| Total liabilities | <u>\$ 7,667,665</u> | <u>\$10,239,808</u> | <u>\$1,237,234</u> | <u>\$5,892,863</u> | <u>\$ 86,580</u> | <u>\$ 949,889</u> | <u>\$26,074,039</u> |
| Net Assets | | | | | | | |
| Invested in capital assets, net of related debt | 12,118,575 | 23,207,636 | 439,076 | 1,838,971 | 3,760,754 | 2,353,200 | 43,718,212 |
| Restricted for debt service | 169,400 | 209,117 | - | - | - | - | 378,517 |
| Unrestricted | 2,751,498 | 924,166 | 430,201 | (432,521) | 9,824,818 | (555,688) | 12,942,474 |
| Total net assets | <u>\$15,039,473</u> | <u>\$24,340,919</u> | <u>\$ 869,277</u> | <u>\$1,406,450</u> | <u>\$13,585,572</u> | <u>\$1,797,512</u> | <u>\$57,039,203</u> |

See accompanying notes to the basic financial statements.

CITY OF ROCKVILLE, MARYLAND

Statement of Revenue, Expenses, and Changes in Fund Net Assets Proprietary Funds For the Year Ended June 30, 2004

Business-type Activities – Enterprise Funds

| | Water Facility Fund | Sanitary Sewer Fund | Refuse Fund | Parking Fund | StormWater Management Fund | RedGate Course Fund | Total Business- Type Activities Funds |
|---|---------------------------|---------------------------|---------------------|---------------------|----------------------------------|---------------------------|---|
| Operating Revenue | | | | | | | |
| Charges for services | \$ 2,952,303 | \$ 4,967,232 | \$ 4,128,978 | \$ 511,154 | \$ 747,754 | \$ 1,151,069 | \$ 14,458,490 |
| Other revenue | <u>742,902</u> | <u>332,887</u> | <u>-</u> | <u>-</u> | <u>140</u> | <u>-</u> | <u>1,075,929</u> |
| Total operating revenue | <u>\$ 3,695,205</u> | <u>\$ 5,300,119</u> | <u>\$ 4,128,978</u> | <u>\$ 511,154</u> | <u>\$ 747,894</u> | <u>\$ 1,151,069</u> | <u>\$ 15,534,419</u> |
| Operating Expenses | | | | | | | |
| Treatment and purification | 1,278,874 | - | - | | | | 1,278,874 |
| Distribution | 795,642 | - | - | | | | 795,642 |
| Collection and disposal | - | ,984,210 | 3,298,490 | | | | 5,282,700 |
| Customer billing, collection and operating expenses | 1,272,337 | 1,400,247 | 600,077 | 136,612 | 767,151 | 1,160,509 | 5,336,933 |
| Repairs and maintenance | <u>112,283</u> | <u>100,689</u> | <u>334,249</u> | <u>-</u> | <u>2,235</u> | <u>-</u> | <u>549,456</u> |
| Total operating expenses | <u>\$ 3,459,136</u> | <u>\$ 3,485,146</u> | <u>\$ 4,232,816</u> | <u>\$ 136,612</u> | <u>\$ 769,386</u> | <u>\$ 1,160,509</u> | <u>\$ 13,243,605</u> |
| Operating income (loss) before depreciation and amortization | \$ 236,069 | \$ 1,814,973 | \$ (103,838) | \$ 374,342 | \$ (21,492) | \$ (9,440) | \$ 2,290,814 |
| Less - depreciation and amortization | <u>(1,082,860)</u> | <u>(874,096)</u> | <u>(317,265)</u> | <u>(3,333)</u> | <u>(111,192)</u> | <u>(117,508)</u> | <u>(2,506,254)</u> |
| Operating income (loss) | <u>\$ (846,791)</u> | <u>\$ 940,877</u> | <u>\$ (421,103)</u> | <u>\$ 371,209</u> | <u>\$ (132,684)</u> | <u>\$ (126,948)</u> | <u>\$ (215,440)</u> |
| Nonoperating Income (Expenses) | | | | | | | |
| Interest income | 49,453 | 46,017 | 4,967 | 5,368 | 82,464 | 5 | 188,274 |
| Interest expense | <u>(240,294)</u> | <u>(284,295)</u> | <u>(20,617)</u> | <u>-</u> | <u>-</u> | <u>(14,163)</u> | <u>(559,369)</u> |
| Total nonoperating income (expenses) | <u>\$ (190,841)</u> | <u>\$ (238,278)</u> | <u>\$ (15,650)</u> | <u>\$ 5,368</u> | <u>\$ 82,464</u> | <u>\$ (14,158)</u> | <u>\$ (371,095)</u> |
| Income (loss) before transfers | <u>\$ (1,037,632)</u> | <u>\$ 702,599</u> | <u>\$ (436,753)</u> | <u>\$ 376,577</u> | <u>\$ (50,220)</u> | <u>\$ (141,106)</u> | <u>\$ (586,535)</u> |
| Transfers In | | | | | | | |
| Transfer in from general fund | <u>-</u> | <u>-</u> | <u>36,792</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>36,792</u> |
| Increase (decrease) in net assets | <u>\$ (1,037,632)</u> | <u>\$ 702,599</u> | <u>\$ (399,961)</u> | <u>\$ 376,577</u> | <u>\$ (50,220)</u> | <u>\$ (141,106)</u> | <u>\$ (549,743)</u> |
| Net assets at beginning of year | <u>16,077,105</u> | <u>23,638,320</u> | <u>1,269,238</u> | <u>1,029,873</u> | <u>13,635,792</u> | <u>1,938,618</u> | <u>57,588,946</u> |
| Net assets at end of year | <u>\$ 15,039,473</u> | <u>\$ 24,340,919</u> | <u>\$ 869,277</u> | <u>\$ 1,406,450</u> | <u>\$ 13,585,572</u> | <u>\$ 1,797,512</u> | <u>\$ 57,039,203</u> |

See accompanying notes to the basic financial statements.

CITY OF ROCKVILLE, MARYLAND

Statement of Cash Flows Proprietary Funds For the Year Ended June 30, 2004

Business-type Activities – Enterprise Funds

| | Water Facility Fund | Sanitary Sewer Fund | Refuse Fund | Parking Fund | Storm Water Management Fund | RedGate Golf Course Fund | Total Business- Type Activities Funds |
|--|---------------------------|---------------------------|---------------------|---------------------|-----------------------------------|--------------------------------|---|
| Cash flows from operating activities: | | | | | | | |
| Cash received from customers | \$ 3,652,323 | \$ 5,141,514 | \$ 4,058,459 | \$ 537,719 | \$ 747,894 | \$ 1,153,758 | \$ 15,291,667 |
| Cash payments to suppliers for goods and services | (1,941,400) | (2,514,143) | (1,848,819) | (41,635) | (314,316) | (532,579) | (7,192,892) |
| Cash payments to employees for services | (1,727,464) | (818,521) | (2,476,914) | (62,415) | (470,383) | (674,731) | (6,230,428) |
| Net cash provided (used) by operating activities | <u>\$ (16,541)</u> | <u>\$ 1,808,850</u> | <u>\$ (267,274)</u> | <u>\$ 433,669</u> | <u>\$ (36,805)</u> | <u>\$ (53,552)</u> | <u>\$ 1,868,347</u> |
| Cash flows from noncapital financing activities: | | | | | | | |
| Cash received from general fund | — | — | 138,708 | — | — | 260,396 | 399,104 |
| Net cash provided by noncapital financing activities | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 138,708</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 260,396</u> | <u>\$ 399,104</u> |
| Cash flows from capital and related financing activities: | | | | | | | |
| Acquisition and construction of capital assets | (2,323,474) | (313,593) | (147,125) | (808,452) | (258,712) | (190,865) | (4,042,221) |
| Purchased capacity cost | — | (3,945,889) | — | — | — | — | (3,945,889) |
| Principal paid on general obligation bond maturities and equipment contracts | (2,664,229) | (2,756,902) | (148,790) | — | — | (5,945) | (5,575,866) |
| Interest paid on general obligation bonds and equipment contracts | (227,924) | (260,985) | (18,395) | — | — | (10,036) | (517,340) |
| Proceeds (including interest) from special assessments | 72,077 | 75,346 | — | — | — | — | 147,423 |
| Proceeds from the sale of bonds | 1,930,952 | 2,759,433 | 109,774 | 5,008,805 | — | — | 9,808,964 |
| Net cash provided (used) by capital and related financing activities | <u>\$ (3,212,598)</u> | <u>\$ (4,442,590)</u> | <u>\$ (204,536)</u> | <u>\$ 4,200,353</u> | <u>\$ (258,712)</u> | <u>\$ (206,846)</u> | <u>\$ (4,124,929)</u> |
| Cash flows from investing activities: | | | | | | | |
| Interest on investments | \$ 31,751 | \$ 25,249 | \$ 4,318 | \$ 4,938 | \$ 74,231 | \$ 2 | \$ 140,489 |
| Net increase (decrease) in cash and cash equivalents | <u>\$ (3,197,388)</u> | <u>\$ (2,608,491)</u> | <u>\$ (328,784)</u> | <u>\$ 4,638,960</u> | <u>\$ (221,286)</u> | <u>\$ —</u> | <u>\$ (1,716,989)</u> |
| Cash and cash equivalents at beginning of year | 6,023,546 | 5,968,332 | 328,784 | 842,589 | 10,124,451 | — | 23,287,702 |
| Cash and cash equivalents at end of year | <u>\$ 2,826,158</u> | <u>\$ 3,359,841</u> | <u>\$ —</u> | <u>\$ 5,481,549</u> | <u>\$ 9,903,165</u> | <u>\$ —</u> | <u>\$ 21,570,713</u> |

(Continued)

CITY OF ROCKVILLE, MARYLAND

Statement of Cash Flows (Continued) Proprietary Funds For the Year Ended June 30, 2004

Reconciliation of Net Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities

| | <u>Business-type Activities – Enterprise Funds</u> | | | | | | |
|--|--|------------------------------------|---------------------------|-------------------------|--|---|--|
| | <u>Water Facility Fund</u> | <u>Sanitary Sewer Fund</u> | <u>Refuse Fund</u> | <u>Parking Fund</u> | <u>Storm Water Management Fund</u> | <u>RedGate Golf Course Fund</u> | <u>Total Business- Type Activities Funds</u> |
| Operating income (loss) | \$ (846,791) | \$ 940,877 | \$(421,103) | \$371,209 | \$(132,684) | \$(126,948) | \$ (215,440) |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | | | | | | |
| Depreciation and amortization | 1,082,860 | 874,096 | 317,265 | 3,333 | 111,192 | 117,508 | 2,506,254 |
| Changes in assets and liabilities: | | | | | | | |
| (Increase) in accounts receivable | (112,368) | (157,578) | (235,211) | | | | (505,157) |
| Increase (decrease) in accounts payable | (194,640) | 191,494 | 16,413 | 57,852 | (26,359) | (57,908) | (13,148) |
| Increase (decrease) in accrued liabilities | 31,687 | (15,596) | 55,362 | 1,275 | 8,525 | 13,233 | 94,486 |
| Increase in deferred revenue | - | | - | | | 2,689 | 2,689 |
| Increase (decrease) in retainages payable | 20,711 | (24,443) | | | 2,521 | (2,126) | (3,337) |
| Increase in deposits and other liabilities | <u>2,000</u> | | | | | | <u>2,000</u> |
| Total adjustments | <u>\$ 830,250</u> | <u>\$ 867,973</u> | <u>\$ 153,829</u> | <u>\$ 62,460</u> | <u>\$ 95,879</u> | <u>\$ 73,396</u> | <u>\$2,083,787</u> |
| Net cash provided (used) by operating activities | <u>\$ (16,541)</u> | <u>\$1,808,850</u> | <u>\$(267,274)</u> | <u>\$433,669</u> | <u>\$(36,805)</u> | <u>\$(53,552)</u> | <u>\$1,868,347</u> |

See accompanying notes to the basic financial statements.

CITY OF ROCKVILLE, MARYLAND

Statement of Fiduciary Net Assets Pension Trust Funds June 30, 2004

| | Total Pension Trust <u>Funds</u> |
|--|--|
| <u>Assets</u> | |
| Investments at fair value - equity in pooled pension trust fund | <u>\$57,082,135</u> |
| <u>Liabilities</u> | <u>\$</u> |
| <u>Net Assets</u> | |
| Available for plan benefits | <u>\$57,082,135</u> |

See accompanying notes to the basic financial statements.

CITY OF ROCKVILLE, MARYLAND

Statement of Changes in Fiduciary Net Assets Pension Trust Funds For the Year Ended June 30, 2004

| | Total Pension Trust <u>Funds</u> |
|--|--|
| <u>Additions</u> | |
| Contributions | |
| Employer | \$ 1,489,494 |
| Plan members | <u>1,695,337</u> |
| Total contributions | <u>\$ 3,184,831</u> |
| Investment Income | |
| Net appreciation in the fair value of plan investments | \$ 5,762,479 |
| Interest and dividends | <u>184,653</u> |
| Total investment income | <u>\$ 5,947,132</u> |
| Total additions | <u>\$ 9,131,963</u> |
| <u>Deductions</u> | |
| Benefits | \$ 1,689,904 |
| Refunds to terminated employees | 395,430 |
| Administrative expense | <u>21,612</u> |
| Total deductions | <u>\$ 2,106,946</u> |
| Net increase | 7,025,017 |
| Net assets - beginning | <u>50,057,118</u> |
| Net assets - ending | <u>\$57,082,135</u> |

See accompanying notes to the basic financial statements.

CITY OF ROCKVILLE, MARYLAND

Notes to Basic Financial Statements June 30, 2004

(1) Summary of Significant Accounting Policies

A. Financial Reporting Entity

The City of Rockville, Maryland (the "City"), was incorporated in 1860. Its legal authority is derived from Article XI E of the State Constitution and Article 23A of the Annotated Code of Maryland. Rockville has a population of 52,401 and a land area of 13.03 square miles. According to the 2000 census, Rockville is the fourth largest city in Maryland. The City has operated under the council-manager form of government since 1948. The City is a municipal corporation where the City Council is comprised of a mayor and four at-large members. Services provided include water, sewer, refuse, streets and drainage, recreation and parks, police, planning and zoning, community development, and community services. Schools, libraries, social services, and fire protection are provided by Montgomery County, Maryland.

For financial reporting purposes, the government-wide financial statements include the various departments governed directly by the Mayor and Council. The City's officials are also responsible for appointing the board of directors of the Rockville Housing Authority, but the City's accountability does not extend beyond making the appointments.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to

CITY OF ROCKVILLE, MARYLAND

Notes to Basic Financial Statements June 30, 2004

(1) Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *capital projects fund* is used to account for financial resources used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

The government reports the following major proprietary funds:

The City operates four major types of enterprise funds: The Water Facility Fund, the Sanitary Sewer Fund, the Parking Fund, and the Stormwater Management Fund account for the provision of water and sewer services, the parking accounts for the parking meter program, parking violations and the planning, design, construction, and operation of proposed parking garages in the City's Town Center and storm water detention/retention facilities to residents within the City's service area. While the Refuse Fund and RedGate Golf Course Fund do not meet the requirements of a major fund, management has elected to report these funds as major. The refuse accounts for trash collections and RedGate Golf Course accounts for the operating and capital costs for the City's golf course facility.

Additionally, the government reports the following fund types:

The City's pension trust funds accounts for the contributions made by the City and its employees to finance future pension payments.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a

CITY OF ROCKVILLE, MARYLAND

Notes to Basic Financial Statements June 30, 2004

(1) Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

proprietary fund's principal ongoing operations. The principal operating revenues of the water, sewer, refuse, and stormwater management funds are charges to customers for sales and services. The water and sewer fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are as reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities, and Net Assets or Equity

1. *Deposits and Investments*

To facilitate effective management of the City's resources, substantially all operating cash is combined in one pooled account. Pension trust fund assets are separately managed by the Principal Mutual Life Insurance Company. Pension trust fund investments are stated at fair value and short-term investments of one year or less included in the City's equity in pooled cash and cash equivalents are stated at amortized cost plus accrued interest. These short-term investments include repurchase agreements and U.S. Treasury securities.

For purposes of the statement of cash flows, the proprietary fund type reflects all monies in the City's cash management pool as cash equivalents.

Interest income earned on City investments is allocated among the funds each month on a pro rata basis in accordance with average equity in pooled cash balances for the previous six months.

2. *Property Taxes*

Taxes on real property and business personal property are levied on property values as assessed on January 1, billed on July 1, and payable either by September 30 or in two equal installments on September 30 and December 31. Montgomery County, Maryland, bills and collects property taxes for the City and remits cash collections to the City once a month. Property taxes are attached as an enforceable lien on the underlying properties as of the succeeding June 1 and are thereafter sold at public auction.

Real and personal property taxes are levied at rates enacted by the Mayor and Council in the annual budget ordinance on the assessed value as determined by the Maryland State Department of Assessments and Taxation. The rate of levy cannot exceed the constant yield tax rate furnished by the Maryland State Department of Assessments and Taxation without public hearings.

The real property tax rate was \$0.322 per \$100 of assessed value and the personal property tax rate was \$.805 per \$100 of assessed value in fiscal year 2004. The City charges taxpayers interest (at the rate of 2/3 of 1 percent per month) and penalty (1 percent per month) on all overdue taxes.

3. *Inventories and Prepaid Items*

All City inventories (included in other assets in the combined balance sheet) are maintained on a consumption basis of accounting and are valued at cost on a first-in, first-out basis and consist of either goods held for resale or goods and materials used in providing services. Reservations of fund balances for the amounts of general fund inventories have been made to reflect the non-availability of those amounts for appropriation in the general fund.

CITY OF ROCKVILLE, MARYLAND

Notes to Basic Financial Statements June 30, 2004

(1) Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

3. *Inventories and Prepaid Items (Continued)*

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. *Restricted Assets*

The debt service fund is used to segregate resources accumulated for debt service payments for future years.

5. *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. The capitalization threshold for infrastructure items is \$25,000.

Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

| <u>Description</u> | <u>Lives (In Years)</u> |
|-----------------------------------|-------------------------|
| Buildings and structures | 40-50 |
| Machinery and equipment | 5-10 |
| Furniture and fixtures | 7-10 |
| Automobiles and trucks | 5-7 |
| Water and sewer infrastructure | 20-50 |
| Storm water management facilities | 20-50 |

6. *Compensated Absences*

It is the government's policy to permit employees to accumulate earned but unused annual and sick leave benefits. All annual leave and sick leave is accrued when incurred in the government-wide and proprietary financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

7. *Long-Term Obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds

CITY OF ROCKVILLE, MARYLAND

Notes to Basic Financial Statements June 30, 2004

(1) Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

7. *Long-Term Obligations (Continued)*

payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources.

Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. *Inter-fund Transactions*

Activity between funds that are representative of lending/borrowing arrangements at the end of the fiscal year are referred to as "due to/from other funds" or "advances to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

9. *Fund Equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Encumbrances related to grant-funded contracts may cause a deficit undesignated fund balance in some funds. This results from a timing difference between the recording of the original encumbrance of the contract and the recognition of the grant revenue when it is measurable and available.

10. *Net Assets*

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt excludes unspent debt proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Restricted resources are used first to fund appropriation.

The City first applied restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

(2) Detailed Notes On All Funds

A. Deposits and Investments

The City maintains a cash and investment pool that is available for use by all of the City's funds, except the pension trust funds.

CITY OF ROCKVILLE, MARYLAND

Notes to Basic Financial Statements June 30, 2004

(2) Detailed Notes On All Funds (Continued)

A. Deposits and Investments (Continued)

Deposits - At year-end, the carrying amount of the City's deposits was a deficit of \$306,141, and the bank balance was a surplus of \$206,144. Of the bank balance, \$156,778 was covered by Federal depository insurance, and the remaining \$49,366 was covered by collateral held in the pledging banks trust department in the City's name.

Investments - The City is authorized to invest in any and all types of investments except where specifically prohibited by Maryland statutes. Maryland state law requires that all collateral be backed up by the full faith and credit of the federal government, including repurchase agreements which are supported by federal obligations. The Mayor and Council of Rockville recognize that their authority to invest the public funds of the City derives from Section 6-222 of the State of Maryland's Finance and Procurement Article, as well as Article 95, Section 22-22N of the Annotated Code of Maryland. Authority to invest City funds in compliance with the provisions of these State statutes is delegated to the Director of Finance.

The manager of the pension plan maintains the assets and invests them in pooled funds in accordance with contractual provisions. Accordingly, the investment amount of \$57,082,135 is not categorized below.

The City's remaining investments are summarized below by type and carrying amount at year-end. Such investments are insured or registered or the related securities are held by the City or its safekeeping agent in the City's name.

| | |
|--|---------------------|
| Repurchase agreements and U.S. Treasury securities | <u>\$43,821,801</u> |
|--|---------------------|

B. Receivables

Major receivables as of year end for the government's individual major funds are as follows:

| | <u>General</u> | <u>Capital Projects</u> | <u>Water</u> | <u>Sewer</u> | <u>Refuse</u> | <u>Total</u> |
|----------------------------|----------------|-------------------------|--------------|--------------|---------------|--------------|
| Receivables: | | | | | | |
| Unbilled utilities | - | | 655,202 | 1,092,017 | 1,056,989 | \$2,804,208 |
| Property taxes | 978,603 | | - | - | - | \$ 978,603 |
| Due from other governments | 1,901,389 | 399,533 | | | | \$2,300,922 |

The City calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounts to \$1,373,042 at June 30, 2004, and is composed of the following:

| | |
|---|--------------------|
| General fund property taxes receivable | \$1,351,175 |
| Enterprise fund utility billings receivable | <u>21,867</u> |
| | <u>\$1,373,042</u> |

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

| | <u>Unavailable</u> | <u>Unearned</u> |
|--|--------------------|------------------|
| Delinquent property taxes receivable (general fund) | \$ 978,603 | \$ |
| Special assessments not yet due (debt service fund) | 2,326,671 | - |
| Recreation services not earned (general fund) | - | <u>789,001</u> |
| Total deferred/unearned revenue for governmental funds | <u>\$3,305,274</u> | <u>\$789,001</u> |

CITY OF ROCKVILLE, MARYLAND

Notes to Basic Financial Statements June 30, 2004

(2) Detailed Notes On All Funds (Continued)

C. Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows:

Primary Government

| | Beginning <u>Balance</u> | <u>Increases</u> | <u>Decreases</u> | Ending <u>Balance</u> |
|--|-----------------------------|----------------------|----------------------|--------------------------|
| Governmental activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 7,843,832 | \$ - | \$ - | \$ 7,843,832 |
| Construction in progress | <u>11,725,537</u> | <u>25,600,812</u> | <u>(848,525)</u> | <u>36,477,824</u> |
| Total capital assets, not being depreciated | <u>\$ 19,569,369</u> | <u>\$ 25,600,812</u> | <u>\$ (848,525)</u> | <u>\$ 44,321,656</u> |
| Capital assets, being depreciated: | | | | |
| Buildings | 14,870,383 | 427,767 | - | 15,298,150 |
| Improvements other than buildings | 4,834,426 | 5,438 | - | 4,839,864 |
| Machinery and equipment | 7,604,636 | 698,811 | (711,389) | 7,592,058 |
| Infrastructure | <u>452,861</u> | <u>415,320</u> | <u>-</u> | <u>868,181</u> |
| Total capital assets being depreciated | <u>\$ 27,762,306</u> | <u>\$ 1,547,336</u> | <u>\$ (711,389)</u> | <u>\$ 28,598,253</u> |
| Less accumulated depreciated for: | | | | |
| Buildings | (6,429,559) | (269,790) | - | (6,699,349) |
| Improvements other than buildings | (1,499,088) | (131,826) | - | (1,630,914) |
| Machinery and equipment | (4,679,752) | (958,619) | 711,389 | (4,926,982) |
| Infrastructure | <u>-</u> | <u>(20,771)</u> | <u>-</u> | <u>(20,771)</u> |
| Total accumulated depreciation | <u>\$(12,608,399)</u> | <u>\$(1,381,006)</u> | <u>\$ 711,389</u> | <u>\$(13,278,016)</u> |
| Total capital assets, being depreciated, net | <u>15,153,907</u> | <u>166,330</u> | <u>-</u> | <u>15,320,237</u> |
| Governmental activities capital assets, net | <u>\$ 34,723,276</u> | <u>\$ 25,767,142</u> | <u>\$ (848,525)</u> | <u>\$ 59,641,893</u> |
| Business-type activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 2,058,940 | \$ - | \$ - | \$ 2,058,940 |
| Construction in progress | <u>5,400,075</u> | <u>8,486,515</u> | <u>(1,100,635)</u> | <u>12,785,955</u> |
| Total capital assets, not being depreciated | <u>\$ 7,459,015</u> | <u>\$ 8,486,515</u> | <u>\$(1,100,635)</u> | <u>\$ 14,844,895</u> |
| Capital assets, being depreciated: | | | | |
| Buildings | 4,447,888 | - | - | 4,447,888 |
| Improvements other than buildings | 49,904,244 | 1,100,635 | - | 51,004,879 |
| Machinery and equipment | 4,991,905 | 188,760 | (63,816) | 5,116,849 |
| Purchased capacity | <u>15,279,453</u> | <u>-</u> | <u>-</u> | <u>15,279,453</u> |
| Total capital assets being depreciated | <u>\$ 74,623,490</u> | <u>\$ 1,289,395</u> | <u>\$ (63,816)</u> | <u>\$ 75,849,069</u> |
| Less accumulated depreciated for: | | | | |
| Buildings | (2,838,748) | (130,298) | - | (2,969,046) |
| Improvements other than buildings | (22,669,611) | (1,603,330) | - | (24,272,941) |
| Machinery and equipment | (3,746,626) | (465,998) | 63,816 | (4,148,808) |
| Purchased capacity | <u>(526,899)</u> | <u>(306,630)</u> | <u>-</u> | <u>(833,529)</u> |
| Total accumulated depreciation | <u>\$(29,781,884)</u> | <u>\$(2,506,256)</u> | <u>\$ 63,816</u> | <u>\$(32,224,324)</u> |
| Total capital assets, being depreciated, net | <u>44,841,606</u> | <u>(1,216,861)</u> | <u>-</u> | <u>43,624,745</u> |
| Business-type activities capital assets, net | <u>\$ 52,300,621</u> | <u>\$ 7,269,654</u> | <u>\$(1,100,635)</u> | <u>\$ 58,469,640</u> |

CITY OF ROCKVILLE, MARYLAND

Notes to Basic Financial Statements June 30, 2004

(2) Detailed Notes On All Funds (Continued)

C. Capital Assets (Continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:

| | |
|--|--------------------|
| General government | \$ 199,411 |
| Community development | 29,380 |
| Community services | 10,133 |
| Public safety | 236,845 |
| Public works | 332,892 |
| Recreation and parks | <u>561,424</u> |
| Total depreciation expense – governmental activities | <u>\$1,370,085</u> |

Business – type activities:

| | |
|---|--------------------|
| Water | \$1,082,860 |
| Sewer | 874,096 |
| Refuse | 317,265 |
| Parking | 3,333 |
| Stormwater management | 111,192 |
| Golf course | <u>117,508</u> |
| Total depreciation expense – business – type activities | <u>\$2,506,254</u> |

D. Interfund Receivables, Payables and Transfers

The interfund receivables and payables as of June 30, 2004 consist of the following:

| <u>Interfund Payable</u> | <u>Interfund Receivable-General Fund Total</u> |
|--|--|
| Special Revenue Fund: | |
| Community Development Block Grant Fund | \$ 17,414 |
| Enterprise Fund: | |
| Refuse Fund | 101,916 |
| RedGate Golf Course Fund | <u>337,098</u> |
| Total | <u>\$456,428</u> |

These interfund payables from various funds represent cash overdrafts that are payable to the general fund within one year.

Interfund transfers for the year ended June 30, 2004 consisted of the following:

| <u>Transfer To</u> | <u>General</u> | <u>Nonmajor Governmental</u> | <u>Total</u> |
|----------------------|--------------------|------------------------------|--------------------|
| General Fund | \$ - | \$ 8,369 | \$ 8,369 |
| Capital Project Fund | 1,299,000 | 72,998 | 1,371,998 |
| Debt Service Fund | 3,120,683 | - | 3,120,683 |
| Refuse Fund | <u>36,792</u> | <u>-</u> | <u>36,792</u> |
| | <u>\$4,456,475</u> | <u>\$81,367</u> | <u>\$4,537,842</u> |

Transfer from the General Fund to the Capital Projects fund represents the City's budgeted pay-as-you-go funding.

CITY OF ROCKVILLE, MARYLAND

Notes to Basic Financial Statements June 30, 2004

(2) Detailed Notes On All Funds (Continued)

D. Interfund Receivables, Payables and Transfers (Continued)

Transfer from the Proprietary Management Fund (nonmajor governmental) to the General Fund (\$8,369) and to the Capital Projects Fund (\$72,998) represents the transfer of the fund's cash after it was closed, on April 1, 2004. The Property Management Fund's outstanding loan was paid off during FY04, therefore this fund had no useful purpose for the City's business so it was abolished.

Transfer from the General Fund to the Refuse Fund represents furnishing refuse pickup for Rockville Housing Enterprises.

Transfer from the General Fund to the Debt Service Fund represents resources to pay off general obligation bonds.

E. Long-Term Debt

General Obligation Bonds and Bond Anticipation Notes

On June 1, 2004, the government issued general obligation bonds and bond anticipation notes in the amount of \$31,665,000 to provide funds for the acquisition and construction of major capital facilities and the purchase of certain real property. General obligation bonds have been issued for both governmental and business-type activities.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds generally are issued as 20-year serial bonds with equal amounts of principal maturing each year. General obligation bonds and bond anticipation notes currently outstanding are as follows:

| <u>Description</u> | <u>Year of Issuance</u> | <u>Outstanding Principal</u> | <u>Interest Rate Range</u> | <u>Year of Final Maturity</u> |
|--|-----------------------------|----------------------------------|--------------------------------|-----------------------------------|
| <u>Governmental Activities</u> | | | | |
| General improvements | 1998 | \$ 1,240,000 | 3.5-4.3% | 2013 |
| General improvements - Equipment | 1999 | 105,241 | 4.17-4.53% | 2006 |
| General improvements - Equipment | 2000 | 327,886 | 4.17-4.53% | 2007 |
| General improvements | 2002 | 2,198,625 | 4.00-4.65% | 2021 |
| General improvements | 2003 | 9,684,598 | 2.00-3.85% | 2023 |
| General improvements - Refunding | 2003 | 8,703,374 | 2.00-3.00% | 2013 |
| General improvements | 2004 | 11,415,000 | 4.00-5.00% | 2029 |
| Bond anticipation notes | 2004 | <u>12,350,000</u> | 3.00-3.25% | 2006 |
| Total governmental activities | | <u>\$46,024,724</u> | | |
| <u>Business - type Activities</u> | | | | |
| General improvements | 1999 | \$ 2,251,092 | 3.21% | 2019 |
| General improvements | 2000 | 1,696,837 | 3.64% | 2020 |
| General improvements | 2002 | 1,355,979 | 1.90% | 2023 |
| General improvements | 2002 | 2,986,375 | 4.00-4.65% | 2021 |
| General improvements | 2003 | 3,040,401 | 2.00-3.875% | 2023 |
| General improvements - Refunding | 2003 | 3,556,626 | 2.00-3.00% | 2013 |
| General improvements | 2004 | <u>7,900,000</u> | 4.00-5.00% | 2029 |
| Total business - type activities | | <u>\$22,787,310</u> | | |

The City anticipates that all amounts required for payment of interest and principal on business-type activities debt will be provided from the respective fund's revenues; however, the bonds are further secured by the full faith and credit and unlimited taxing power of the City.

Note: amount does not include unamortized bond discount/premium of \$135,883.

CITY OF ROCKVILLE, MARYLAND

Notes to Basic Financial Statements June 30, 2004

(2) Detailed Notes On All Funds (Continued)

E. Long-Term Debt (Continued)

City's long-term debt are payable during future years as follows:

| Fiscal Year Ending June 30 | Governmental Activities | | Total Governmental Activities Principal and Interest |
|-------------------------------|-------------------------|---------------------|---|
| | Principal | Interest | |
| 2005 | \$ 3,126,989 | \$ 1,401,472 | \$ 4,528,461 |
| 2006 | 15,538,665 | 1,430,794 | 16,969,459 |
| 2007 | 3,114,221 | 961,967 | 4,076,188 |
| 2008 | 3,041,082 | 883,758 | 3,924,840 |
| 2009 | 1,948,476 | 802,753 | 2,751,229 |
| 2010 | 1,947,828 | 742,979 | 2,690,807 |
| 2011 | 1,704,362 | 679,696 | 2,384,058 |
| 2012 | 1,677,417 | 621,222 | 2,298,639 |
| 2013 | 1,527,536 | 561,601 | 2,089,137 |
| 2014 | 1,210,061 | 506,430 | 1,716,491 |
| 2015 | 1,210,061 | 462,681 | 1,672,742 |
| 2016 | 1,210,061 | 417,454 | 1,627,515 |
| 2017 | 1,210,061 | 370,748 | 1,580,809 |
| 2018 | 1,210,061 | 322,997 | 1,533,058 |
| 2019 | 1,210,061 | 274,104 | 1,484,165 |
| 2020 | 1,210,061 | 224,637 | 1,434,698 |
| 2021 | 1,210,140 | 174,030 | 1,384,170 |
| 2022 | 1,075,678 | 122,455 | 1,198,133 |
| 2023 | 1,071,903 | 76,450 | 1,148,353 |
| 2024 | <u>570,000</u> | <u>28,500</u> | <u>598,500</u> |
| Total | <u>\$46,024,724</u> | <u>\$11,066,728</u> | <u>\$57,091,452</u> |

| Fiscal Year Ending June 30, | Business-type Activities | | | | | | | | | | Total Business- type Activities |
|--------------------------------------|--------------------------|-------------|-------------------|-------------|-----------|----------|-------------|-------------|------------------------|-----------|------------------------------------|
| | Water Facility | | Sanitary Sewer | | Refuse | | Parking | | RedGate Golf Course | | Principal and |
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Interest |
| 2005 | \$ 660,220 | \$ 267,923 | \$ 659,871 | \$ 321,761 | \$165,566 | \$20,286 | \$170,000 | \$179,553 | \$ 5,945 | \$ 12,603 | \$ 2,463,728 |
| 2006 | 686,421 | 250,998 | 677,005 | 328,008 | 167,415 | 16,707 | 125,000 | 220,803 | 5,945 | 12,484 | 2,490,786 |
| 2007 | 700,418 | 233,399 | 680,471 | 309,079 | 164,338 | 12,125 | 130,000 | 215,803 | 5,945 | 12,365 | 2,463,943 |
| 2008 | 669,173 | 201,079 | 678,595 | 290,109 | 166,337 | 7,668 | 135,000 | 210,603 | 5,945 | 12,246 | 2,376,755 |
| 2009 | 393,405 | 159,855 | 578,825 | 270,434 | 10,000 | 2,920 | 135,000 | 205,202 | 24,804 | 12,116 | 1,792,561 |
| 2010 | 399,939 | 147,944 | 576,554 | 252,061 | 10,000 | 2,000 | 140,000 | 199,802 | 24,803 | 11,526 | 1,764,629 |
| 2011 | 360,283 | 135,436 | 523,565 | 232,731 | 10,000 | 1,600 | 145,000 | 194,202 | 24,803 | 10,869 | 1,638,489 |
| 2012 | 363,223 | 124,037 | 516,752 | 214,360 | 10,000 | 1,200 | 150,000 | 188,402 | 24,803 | 10,162 | 1,602,939 |
| 2013 | 341,492 | 112,493 | 482,687 | 195,745 | 10,000 | 800 | 160,000 | 182,402 | 24,804 | 9,418 | 1,519,841 |
| 2014 | 321,458 | 101,653 | 450,135 | 177,858 | 10,000 | 400 | 165,000 | 176,003 | 24,803 | 8,674 | 1,435,984 |
| 2015 | 331,561 | 91,551 | 450,136 | 160,737 | - | - | 170,000 | 169,403 | 24,803 | 7,930 | 1,406,121 |
| 2016 | 341,993 | 81,118 | 450,136 | 143,093 | - | - | 180,000 | 162,390 | 24,803 | 7,156 | 1,390,689 |
| 2017 | 352,763 | 70,347 | 450,136 | 124,930 | - | - | 185,000 | 154,740 | 24,804 | 6,349 | 1,369,069 |
| 2018 | 363,886 | 59,226 | 445,135 | 106,490 | - | - | 195,000 | 146,785 | 24,803 | 5,505 | 1,346,830 |
| 2019 | 375,371 | 47,742 | 445,136 | 87,904 | - | - | 205,000 | 138,205 | 24,803 | 4,637 | 1,328,798 |
| 2020 | 189,888 | 26,215 | 445,135 | 69,093 | - | - | 210,000 | 129,185 | 24,803 | 3,744 | 1,098,063 |
| 2021 | 50,087 | 13,049 | 445,370 | 49,922 | - | - | 220,000 | 119,735 | 24,804 | 2,827 | 925,794 |
| 2022 | 51,039 | 12,097 | 274,518 | 30,512 | - | - | 230,000 | 109,560 | 24,803 | 1,896 | 734,425 |
| 2023 | 51,750 | 11,128 | 273,478 | 18,866 | - | - | 245,000 | 98,750 | 24,618 | 954 | 724,544 |
| 2024 | - | - | 135,000 | 6,750 | - | - | 255,000 | 86,500 | - | - | 483,250 |
| 2025 | - | - | - | - | - | - | 265,000 | 73,750 | - | - | 338,750 |
| 2026 | - | - | - | - | - | - | 280,000 | 60,500 | - | - | 340,500 |
| 2027 | - | - | - | - | - | - | 295,000 | 46,500 | - | - | 341,500 |
| 2028 | - | - | - | - | - | - | 310,000 | 31,750 | - | - | 341,750 |
| 2029 | - | - | - | - | - | - | 325,000 | 16,250 | - | - | 341,250 |
| Total | \$7,004,370 | \$2,147,290 | \$9,638,640 | \$3,390,443 | \$723,656 | \$65,706 | \$5,025,000 | \$3,516,778 | \$395,644 | \$153,461 | \$32,060,988 |

Note: Principal amounts do not include unamortized bond discount/premium of \$135,883.

CITY OF ROCKVILLE, MARYLAND

Notes to Basic Financial Statements June 30, 2004

(2) Detailed Notes On All Funds (Continued)

E. Long-Term Debt (Continued)

The requirements to long-term debt are summarized as follows:

| Fiscal Year Ending June 30 | Governmental Activities | | Total General Activities Principal and Interest |
|-------------------------------|-------------------------|---------------------|--|
| | Principal | Interest | |
| 2005 | \$ 3,126,989 | \$ 1,401,472 | \$ 4,528,461 |
| 2006 | 15,538,665 | 1,430,794 | 16,969,459 |
| 2007 | 3,114,221 | 961,967 | 4,076,188 |
| 2008 | 3,041,082 | 883,758 | 3,924,840 |
| 2009 | 1,948,476 | 802,753 | 2,751,229 |
| 2010 - 2014 | 8,067,204 | 3,111,928 | 11,179,132 |
| 2015 - 2019 | 6,050,305 | 1,847,984 | 7,898,289 |
| 2020 - 2024 | <u>5,137,782</u> | <u>626,072</u> | <u>5,763,854</u> |
| | <u>\$46,024,724</u> | <u>\$11,066,728</u> | <u>\$57,091,452</u> |

Business-type Activities

| Fiscal Year Ending June 30, | Water Facility | | Sanitary Sewer | | Refuse | | Parking | | RedGate Golf Course | | Total Business- Type Activities Principal and Interest |
|--------------------------------------|--------------------|--------------------|--------------------|--------------------|------------------|-----------------|--------------------|--------------------|------------------------|------------------|---|
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | |
| 2005 | \$ 660,220 | \$ 267,923 | \$ 659,871 | \$ 321,761 | \$165,566 | \$20,286 | \$170,000 | \$179,553 | \$ 5,945 | \$ 12,603 | \$ 2,463,728 |
| 2006 | 686,421 | 250,998 | 677,005 | 328,008 | 167,415 | 16,707 | 125,000 | 220,803 | 5,945 | 12,484 | 2,490,786 |
| 2007 | 700,418 | 233,399 | 680,471 | 309,079 | 164,338 | 12,125 | 130,000 | 215,803 | 5,945 | 12,365 | 2,463,943 |
| 2008 | 669,173 | 201,079 | 678,595 | 290,109 | 166,337 | 7,668 | 135,000 | 210,603 | 5,945 | 12,246 | 2,376,755 |
| 2009 | 393,405 | 159,855 | 578,825 | 270,434 | 10,000 | 2,920 | 135,000 | 205,202 | 24,804 | 12,116 | 1,792,561 |
| 2010- 2014 | 1,786,395 | 621,563 | 2,549,693 | 1,072,755 | 50,000 | 6,000 | 760,000 | 940,811 | 124,016 | 50,649 | 7,961,882 |
| 2015- 2019 | 1,765,574 | 349,984 | 2,240,679 | 623,154 | - | - | 935,000 | 771,523 | 124,016 | 31,577 | 6,841,507 |
| 2020- 2024- 2025- 2029 | 342,764 | 62,489 | 1,573,501 | 175,143 | - | - | 1,160,000 | 543,730 | 99,028 | 9,421 | 3,966,076 |
| Total | <u>\$7,004,370</u> | <u>\$2,147,290</u> | <u>\$9,638,640</u> | <u>\$3,390,443</u> | <u>\$723,656</u> | <u>\$65,706</u> | <u>\$5,025,000</u> | <u>\$3,516,778</u> | <u>\$395,644</u> | <u>\$153,461</u> | <u>\$32,060,988</u> |

Note: Principal amounts do not include unamortized bond discount of \$135,883.

Defeasance of Debt

In prior years, the City defeased certain general obligation and other bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on old bonds. Accordingly, the trust account assets and the liability for the defeased bonds area not included in the City's financial statements. At June 30, 2004, \$10,013,700 of bonds outstanding are considered defeased, \$2,764,400 pertaining to bonds that were accounted for in business-type activities, and \$7,249,300 relating to general obligations that were accounted for within the governmental activities group. In accordance with the applicable bond indentures, the trustees will continue to extinguish the defeased debt until 2011

CITY OF ROCKVILLE, MARYLAND

Notes to Basic Financial Statements June 30, 2004

(2) Detailed Notes On All Funds (Continued)

E. Long-Term Debt (Continued)

New Issue

On June 1, 2004, the City of Rockville issued \$19,315,000 in General Obligation Bonds. These bonds were rated "Aa1" by Moody's Investors Service and "AA+" by Standard and Poors. The proceeds of the bonds are to be utilized to fund the expansion and upgrade of a sewage treatment plant, the purchase and replacement of City owned vehicles, town center redevelopment costs, parking garage site preparation expenses, and improvements to various parks.

Also, on June 1, 2004 the City of Rockville issued \$12,350,000 in Bond Anticipation Notes. These notes were rated "MIG1" by Moody's Investors Services and "SP-1+" by Standard and Poor's. The proceeds of the notes are to be utilized to finance or refinance the cost of acquiring certain real property.

Changes in Long-Term Liabilities

The following is a summary of changes in the City's long-term debt for the year ended June 30, 2004:

| | Balance June 30, 2003 | Additions | Reductions | Net Amortization of Bond Discount/ Premium | Balance June 30, 2004 | Remaining Unamortized Bond Discount/ Premium June 30, 2004 | Due Within One Year |
|---|-----------------------------|---------------------|-----------------------|--|-----------------------------|--|------------------------|
| <u>Governmental Activities</u> | | | | | | | |
| General obligation bonds | \$35,295,444 | \$11,415,000 | \$(13,035,720) | \$ | \$33,674,724 | \$ | \$3,126,989 |
| Bond anticipation notes | - | 12,350,000 | - | | 12,350,000 | | - |
| Accrued obligations for compensated absences | 2,272,813 | 304,462 | (7,580) | - | 2,569,695 | | 1,875,877 |
| Governmental activity long-term liabilities | <u>\$37,568,257</u> | <u>\$24,069,462</u> | <u>\$(13,043,300)</u> | <u>\$ -</u> | <u>\$48,594,419</u> | <u>\$ -</u> | <u>\$5,002,866</u> |
| <u>Business-type Activities:</u> | | | | | | | |
| General obligation bonds | | | | | | | |
| Water facility fund | \$ 7,708,951 | \$ 1,930,951 | \$(2,664,229) | \$ 5,482 | \$ 6,981,155 | \$ 23,215 | \$ 660,220 |
| Sanitary sewer fund | 9,541,007 | 2,765,000 | (2,756,902) | 3,807 | 9,552,912 | 85,728 | 659,871 |
| Refuse fund | 758,151 | 110,000 | (148,790) | 437 | 719,798 | 3,858 | 165,566 |
| Parking fund | - | 5,025,000 | - | (21,637) | 5,003,363 | 21,637 | 170,000 |
| RedGate golf course fund | 400,068 | - | (5,945) | 76 | 394,199 | 1,445 | 5,945 |
| Accrued obligations for compensated absences | 603,201 | 57,738 | (25,146) | | 635,793 | | 464,129 |
| Business-type activity long-term liabilities | <u>\$19,011,378</u> | <u>\$9,888,689</u> | <u>\$(5,601,012)</u> | <u>\$(11,835)</u> | <u>\$23,287,220</u> | <u>\$135,883</u> | <u>\$2,125,731</u> |

The compensated absences in the governmental activities will be paid out of the general fund.

The government-wide statement of net assets includes \$378,517 of the long-term liabilities due within one year for business-type activities in "liabilities payable from restricted assets." The remaining amount of \$1,283,085 is displayed as "noncurrent liabilities, due within one year" on that same statement.

F. Restricted Assets

The balances of the restricted asset accounts in the enterprise funds are as follows:

| | |
|--|------------------|
| Reserved for debt repayment – Water Facility | \$169,400 |
| Reserved for debt repayment – Sanitary Sewer | 209,117 |
| Total restricted assets | <u>\$378,517</u> |

CITY OF ROCKVILLE, MARYLAND

Notes to Basic Financial Statements June 30, 2004

(2) Detailed Notes On All Funds (Continued)

G. Operating Lease

The City entered into a ten year office lease beginning June 1, 2004, which expires as of May 31, 2014. Total annual rent of \$94,800 for the year ended May 31, 2005, with an annual rent increase of 3% for each year, thereafter.

| <u>Year</u> | <u>Rent Amount</u> |
|-------------|--------------------|
| 2005 | \$ 97,644 |
| 2006 | 100,573 |
| 2007 | 103,591 |
| 2008 | 106,698 |
| 2009 | 109,899 |
| 2010-2014 | <u>600,974</u> |
| Total | <u>\$1,119,379</u> |

(3) Other Information

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; natural disasters; and employee health benefits.

The City participates in the Montgomery County Liability and Property Coverage self-insurance fund, under which participants share coverage for worker's compensation, comprehensive general, automobile and professional liability, fire and theft, and the liability for errors, omissions and other selected areas that require coverage. The Montgomery County Division of Risk Management is the administrator of the fund. The City pays an annual premium to Montgomery County for its insurance coverage.

The City continues to carry commercial insurance for employee health insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

B. Contingent Liabilities

Washington Suburban Sanitary Commission (WSSC)

The City has contracted with the WSSC to purchase a portion of the capacity of the Blue Plains Waste Water Treatment Plant. Through June 30, 2004, the City had paid \$21,687,111 as its contractual share of the construction costs of the treatment facility and the related sewer transmission lines. The City's remaining contribution through the completion of the project is estimated to be \$11,224,542 for treatment capacity. The City intends to issue bonds to fund most of these costs.

The City has no direct ongoing equity interest in WSSC's assets and liabilities. Furthermore, the City has no significant influence over the management of the treatment facilities. Accordingly, the City does not record this contractual arrangement as a joint venture.

In addition to the capacity cost described above, the WSSC charges the City a portion of its operating costs for treatment of sewage. The City accrues an amount for these charges each year based on its best estimate of usage. Adjustments to the accrued charges which result from subsequent billings by the WSSC are recorded in the period during which the final bill is received by the City.

CITY OF ROCKVILLE, MARYLAND

Notes to Basic Financial Statements June 30, 2004

(3) Other Information (Continued)

B. Contingent Liabilities (Continued)

Litigation

The City is contingently liable with respect to lawsuits and other claims which arise in the ordinary course of its operations. The total amount of pending lawsuits and claims not covered by insurance nor expressly provided for in these statements is considered to be immaterial.

C. Other Post-employment Benefits

In addition to the pension benefits described in Note 5, the City provides post-employment health benefits. The pension plan, under the direction of the Retirement Board, authorizes a retiree who elects to stay with the City's policy group to receive from the City the employer's share (i.e., the same level of premium support given to current employees) of medical insurance premiums up until age 65. In the event a retiree establishes residency outside the geographic area served by the City's group health insurance carriers, that person may purchase coverage and receive reimbursement from the City in an amount not to exceed the prevailing two-person coverage employer rate granted to current employees. The pension plan stipulates that eligible retirees from the administrative and union employee groups shall include those who (a) retire, having attained age 60 while employed with the City and who have completed at least 10 years of service prior to retirement, (b) take early retirement occasioned by poor health, having attained age 50 while employed with the City and having completed 10 years of service, or (c) take early retirement from the City when their age plus service equals or exceeds 85. Eligible police retirees are those who have met the conditions stated above or who have attained their normal retirement date on the first day of the month coinciding with or following the earlier of (a) the employee's 60th birthday or (b) the later of the employee's 51st birthday and completion of 25 years of credited service. Currently, the City finances the post employment health insurance benefits on a pay-as-you-go basis and expenditures for these insurance premiums are recorded in the General Fund. During fiscal year 2004, 35 retirees received post-employment health benefits. Expenditures of approximately \$51,000 were incurred by the City in furnishing these benefits.

D. Pension Plan

The City employees participate in one single-employer defined benefit pension plan and one defined contribution pension plan. The Retirement Board has the authority to establish and amend the benefit provisions of the pension plans including contribution requirements of the employees and employer.

The financial statements of the City's pension plans are prepared using the accrual basis of accounting. Member contributions are recognized in the period in which contributions are due. City contributions to each plan are recognized when due and the City has made formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

The Principal Mutual Life Insurance Company is the administrator of the single-employer defined benefit plan and defined contribution plan, which was established and is administered by the City of Rockville. The Public Employee Retirement System (PERS) is considered part of the City of Rockville reporting entity and is included in the City's financial reports as pension trust funds. The plans do not issue separate financial statements.

CITY OF ROCKVILLE, MARYLAND

Notes to Basic Financial Statements June 30, 2004

(3) Other Information (Continued)

D. Pension Plan (Continued)

The PERS has a defined benefit option and a defined contribution option, which report as separate pension trust funds.

1) Defined Benefit Option

This option is available to police employees, which participate 100 percent in the defined benefit option regardless of the date of employment and non-police employees who were members of the plan as of April 14, 1986. All benefits vest after 10 years of credited service. An employee who retires at age 60 or a police employee with the completion of 25 years of credited service regardless of age is entitled to an annual retirement benefit, payable monthly for life (120 payments are guaranteed), for union employees in an amount equal to 1.8 percent of his/her final average salary, for each year of credited service, for administrative personnel in an amount equal to 1.8 percent before April 1, 1996, and 2.0 percent on or after April 1, 1996, of his/her final average salary, for each year of credited service and for police personnel in an amount equal to the lesser of (a)(1) 2.0 percent of his/her final average earnings multiplied by his/her years of credited service prior to April 1, 2004, plus (2) 2.25 percent of his/her final average earnings multiplied by his/her years of credited service on or after April 1, 2004, or (b) 60 percent of his/her final average earnings. Final average salary for administrative personnel and union employees is computed as the average earnings over three consecutive years within the last 10 years of service which produces the highest average and for police employees the average annual earnings is computed as the average annual earnings during the final 60 months of employment with the City.

Covered police and pre-1986 non-police employees are required by statute to contribute a certain percent (4.2 percent for union, 5.2 percent for administrative and 8.5 percent for police) of their salaries to the plan. If an employee leaves covered employment or dies before 10 years of credited service (based upon a graduated vesting schedule of 50 percent after five years, up to 100 percent after 10 years of credited service), accumulated employee contributions plus credited interest thereon at the rate of 6 percent and a portion of the City's contribution (City contributions are deemed to be 150 percent of the employees contributions plus credited interest) are paid to the employee or designated beneficiary.

This option also is available to full-time, permanent, non-police employees hired on or after April 15, 1986. These employees also are covered by the defined contribution option described below. Employees are required to participate from the date of employment. Union employees are covered for an annual benefit equal to 1 percent of average salary and administrative personnel are covered for an annual benefit equal to 1.0 percent before April 1, 1996, and 1.2 percent on or after April 1, 1996, of average salary (as previously defined) for each year of credited service. Administrative personnel are required by statute to contribute 1 percent of their salaries to the plan starting April 1, 1996. Employees are vested 100% after 10 years of service.

(2) Defined Contribution Option

Full-time, permanent non-police employees hired on or after April 15, 1986, are required to participate in this option from the date of employment. The plan allows contributions up to a maximum of 5 percent of earnings. The employee contributions are matched \$.50 by the City for each \$1 contributed by the employee. The employee is fully vested in his/her employee contributions and investment earnings thereon. The City's contribution for each employee (City's contributions and investment earnings thereon) is partially vested after three years and fully vested after seven years of credited service. Employees attaining the age of 60 become fully vested regardless of the number of years of credited service. The contributions actually made in FY 04 for plan members were \$823,200 and the City contributed \$411,600.

CITY OF ROCKVILLE, MARYLAND

Notes to Basic Financial Statements June 30, 2004

(3) Other Information (Continued)

D. Pension Plan (Continued)

Membership in the defined benefit plan consisted of the following at April 1, 2004, the date of the latest actuarial valuation.

| | |
|--|------------|
| Retirees and beneficiaries receiving payments | 126 |
| Terminated plan members entitled to but not yet receiving payments | 116 |
| Active plan members | <u>520</u> |
| Total | <u>762</u> |

Combining Statement of Changes in Fiduciary Net Assets Pension Trust Funds For the Year Ended June 30, 2004

| | Defined Contributions Option | Defined Benefit Option | Total Pension Trust Funds |
|--|------------------------------------|------------------------------|---------------------------------|
| <u>Additions</u> | | | |
| Contributions | | | |
| Employer | \$ 411,600 | \$ 1,077,894 | \$ 1,489,494 |
| Plan members | <u>823,200</u> | <u>872,137</u> | <u>1,695,337</u> |
| Total contributions | <u>\$1,234,800</u> | <u>\$ 1,950,031</u> | <u>\$ 3,184,831</u> |
| Investment Income | | | |
| Net appreciation in the fair value of plan investments | \$ 893,973 | \$ 4,868,506 | \$ 5,762,479 |
| Interest and dividends | <u>12,019</u> | <u>172,634</u> | <u>184,653</u> |
| Total investment income | <u>\$ 905,992</u> | <u>\$ 5,041,140</u> | <u>\$ 5,947,132</u> |
| Total additions | <u>\$2,140,792</u> | <u>\$ 6,991,171</u> | <u>\$ 9,131,963</u> |
| <u>Deductions</u> | | | |
| Benefits | \$ - | \$ 1,689,904 | \$ 1,689,904 |
| Refunds to terminated employees | 384,685 | 10,745 | 395,430 |
| Administrative expense | <u>19,570</u> | <u>2,042</u> | <u>21,612</u> |
| Total deductions | <u>\$ 404,255</u> | <u>\$ 1,702,691</u> | <u>\$ 2,106,946</u> |
| Net increase | 1,736,537 | 5,288,480 | 7,025,017 |
| Net assets - beginning | <u>7,360,214</u> | <u>42,696,904</u> | <u>50,057,118</u> |
| Net assets - ending | <u>\$9,096,751</u> | <u>\$47,985,384</u> | <u>\$57,082,135</u> |

Combining Statement of Fiduciary Net Assets Pension Trust Funds June 30, 2004

| | <u>Defined Contribution Option</u> | <u>Defined Benefit Option</u> | <u>Total</u> |
|--|------------------------------------|-------------------------------|---------------------|
| <u>Assets</u> | | | |
| Investments at fair value - equity in pooled pension trust fund | <u>\$9,096,751</u> | <u>\$47,985,384</u> | <u>\$57,082,135</u> |
| <u>Liabilities</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| <u>Net Assets</u> | | | |
| Available for plan benefits | <u>\$9,096,751</u> | <u>\$47,985,384</u> | <u>\$57,082,135</u> |

CITY OF ROCKVILLE, MARYLAND

Notes to Basic Financial Statements June 30, 2004

(3) Other Information (Continued)

D. Pension Plan (Continued)

Funding Policy and Annual Pension Cost - Defined Benefit Option

The employee contribution requirements for the plan are set by the Retirement Board. The City's annual contribution is based on annual actuarial valuations. The City of Rockville bears the cost of administering the pension plan.

| | |
|----------------------------|----------------------------|
| Contribution rates | |
| City | 6.93%-8.80% |
| Plan members | 0.00%-8.50% |
| Annual pension cost | \$1,529,727 |
| Contributions made | \$1,529,727 |
| Actuarial valuation date | 4/1/04 |
| Actuarial cost method | Entry age normal |
| Amortization method | Closed |
| Amortization period | 20 years |
| Asset valuation method | |
| Fixed income assets | Contract basis |
| United States Stock | Four years smoothed market |
| Actuarial assumptions | |
| Investment rate of return | 7.75% |
| Projected salary increases | 3.88%-8.10% |
| Includes inflation at | 3.00% |
| Cost of living adjustments | 0.00% |

The PERS funding policy provides for actuarially determined periodic contributions at rates that, for individual employees, increase gradually over time so that sufficient assets will be available to pay benefits when due. The actuarial assumptions used to compute the required contribution amount are the same as those used to compute the pension benefits earned. The rate for the City's employee group as a whole has tended to remain level as a percentage of annual covered payroll. The contribution rate for normal cost is determined using the credited projected benefits actuarial funding method with proration based on service. The City of Rockville is required to contribute all amounts in excess of employee contributions necessary to fund this pension plan, using the entry age-normal actuarial method.

Three-Year Trend Information

| <u>Plan Year</u> <u>Ending April 1</u> | <u>Annual Pension</u> <u>Cost (APC)</u> | <u>Percentage of APC</u> <u>Contributed</u> | <u>Net Pension</u> <u>Obligation</u> |
|---|--|--|---|
| 2002 | \$1,190,163 | 100.0% | \$ |
| 2003 | 1,389,561 | 100.0 | |
| 2004 | 1,529,727 | 100.0 | |

Note: Contributions have been made in accordance with actuarially determined requirements which have been computed each year.

CITY OF ROCKVILLE, MARYLAND

Notes to Basic Financial Statements June 30, 2004

(4) New Governmental Accounting Standards Board Standards:

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to the year ended June 30, 2004 that have effective dates that may impact future financial presentations.

Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statement of the City:

GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, will be effective for the City beginning with its year ending June 30, 2005. This Statement establishes and modifies disclosure requirements related to investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. As an element of interest rate risk, this Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. This Statement also establishes and modifies disclosure requirements for deposit risks.

- GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, will be effective for the City beginning with its year ending June 30, 2006. This Statement requires governments to report the effects of capital asset impairment in their financial statements when it occurs and requires all governments to account for insurance recoveries in the same manner.

GASB Statement No. 43, *Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans*, will be implemented in phases using the same criteria applied in the implementation of the new governmental reporting model. As a result, this Statement will be effective for the City beginning with its year ending June 30, 2008. This statement establishes uniform financial reporting standards for other post-employment benefit plans (OPEB plans) and supersedes existing guidance.

- GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section*, will be effective for the City beginning with its year ending June 30, 2006. This Statement updates and modifies portions of previous guidance related to the preparation of a statistical section when presented as a required part of a comprehensive annual financial report.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*, will be implemented in phases using the same criteria applied in the implementation of the new governmental reporting model. As a result, this Statement will be effective for the City beginning with its year ending June 30, 2009. This Statement will require governments to recognize an expense under the accrual basis for annual required OPEB contributions, regardless of amounts paid. This cumulative difference between amounts expensed and paid will create a liability (asset) similar to net pension obligations.

Required Supplementary Information

CITY OF ROCKVILLE, MARYLAND

Public Employee Retirement System

June 30, 2004

(Unaudited – See Accompanying Independent Auditor's Report)

Schedule of Funding Progress

Historical trend information about pension plans is presented herewith as required supplementary information. This information is intended to help users assess pension plan funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employee retirement systems. The amount shown in the historical trend information as the "actuarial accrued liability" is a measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. Annual pension costs equal the employer's annual required contributions for all disclosed fiscal years.

| Actuarial Valuation Date April 1 | (A) Actuarial Value of Assets | (B) Actuarial Accrued Liability (AAL) Entry Age | (A-B) Funded (Unfunded) AAL (FAAL)/UAAL | (A/B) Funded Ratio | (C) Covered Payroll | ((A-B)/C) FAAL/UAAL as a percentage of Covered Payroll |
|--|--|---|---|--------------------------|---------------------------|--|
| 2002 | \$45,290,157 | \$42,191,423 | \$3,098,734 | 107.3% | \$22,224,041 | 13.9% |
| 2003 | 45,435,953 | 46,294,593 | (858,640) | 98.1 | 23,900,022 | (3.6) |
| 2004 | 47,866,312 | 51,064,065 | (3,197,753) | 93.7 | 25,211,836 | (12.7) |

Analysis of the dollar amounts of actuarial value of assets, actuarial accrued liability, and funded actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability provides one indication of the City's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the PERS. Trends in the funded actuarial accrued liability and covered payroll are both affected by inflation. Expressing the funded actuarial accrued liability as a percentage of covered payroll approximately adjusts for the effects of inflation and aids analysis of the City's progress made in accumulating sufficient assets to pay benefits when due. Generally, the greater this percentage, the stronger the PERS.

CITY OF ROCKVILLE, MARYLAND

Budgetary Comparison Schedule General Fund For the Year Ended June 30, 2004

| | <u>Original Budget</u> | <u>Budget as Amended</u> | <u>Actual</u> | <u>Variance from Amended Positive (Negative)</u> |
|--|----------------------------|------------------------------|----------------------|--|
| Revenue | | | | |
| Property taxes | \$23,205,500 | \$23,261,000 | \$23,386,926 | \$ 125,926 |
| Revenue from other governments: | | | | |
| Income taxes | 6,345,000 | 6,345,000 | 7,019,049 | 674,049 |
| Gas and motor vehicle taxes | 1,789,506 | 1,789,506 | 1,991,434 | 201,928 |
| County tax duplication payment | 1,258,500 | 1,258,500 | 1,259,511 | 1,011 |
| Admissions and amusement taxes | 1,106,500 | 1,106,500 | 1,023,395 | (83,105) |
| Grants and other governmental revenue | 1,279,945 | 1,300,900 | 1,427,093 | 126,193 |
| Licenses and permits | 2,040,150 | 1,674,150 | 1,699,991 | 25,841 |
| Charges for services | 4,766,609 | 4,534,609 | 4,368,465 | (166,144) |
| Use of money and property | 904,344 | 754,344 | 724,632 | (29,712) |
| Fines and forfeitures | 655,600 | 387,400 | 285,253 | (102,147) |
| Other revenue | <u>1,580,359</u> | <u>1,807,795</u> | <u>1,698,046</u> | <u>(109,749)</u> |
| Total revenue | <u>\$44,932,013</u> | <u>\$44,219,704</u> | <u>\$44,883,795</u> | <u>\$ 664,091</u> |
| Expenditures | | | | |
| Current operations: | | | | |
| General government | \$ 8,668,761 | \$ 8,890,291 | \$ 8,185,223 | \$ 705,068 |
| Community development | 1,627,516 | 1,636,842 | 1,482,277 | 154,565 |
| Community services | 1,272,104 | 1,300,724 | 1,287,759 | 12,965 |
| Public safety | 7,735,878 | 7,731,985 | 7,603,115 | 128,870 |
| Public works | 5,220,888 | 5,354,142 | 5,232,331 | 121,811 |
| Recreation and parks | 13,265,735 | 13,473,654 | 13,323,501 | 150,153 |
| Nondepartmental | <u>3,324,877</u> | <u>2,895,785</u> | <u>2,311,980</u> | <u>583,805</u> |
| Total expenditures | <u>\$41,115,759</u> | <u>\$41,283,423</u> | <u>\$39,426,186</u> | <u>\$1,857,237</u> |
| Excess of revenue over expenditures | <u>\$ 3,816,254</u> | <u>\$ 2,936,281</u> | <u>\$ 5,457,609</u> | <u>\$2,521,328</u> |
| Other Financing Sources (Uses) | | | | |
| Transfer to refuse fund | (36,792) | (36,792) | (36,792) | |
| Transfer to CIP | (431,500) | (1,299,000) | (1,299,000) | - |
| Transfer to debt service fund | (3,598,662) | (3,120,683) | (3,120,683) | - |
| Transfer from property management fund | - | - | 8,369 | 8,369 |
| Total other financing uses | <u>\$(4,066,954)</u> | <u>\$(4,456,475)</u> | <u>\$(4,448,106)</u> | <u>\$ 8,369</u> |
| Net change in fund balance | (250,700) | (1,520,194) | 1,009,503 | 2,529,697 |
| Fund balance at beginning of year | <u>10,507,912</u> | <u>8,267,435</u> | <u>10,571,808</u> | <u>2,304,373</u> |
| Fund balance at end of year | <u>\$10,257,212</u> | <u>\$ 6,747,241</u> | <u>\$11,581,311</u> | <u>\$4,834,070</u> |

See accompanying notes to the basic financial statements and required supplementary information.

CITY OF ROCKVILLE, MARYLAND

Note to the Required Supplementary Information June 30, 2004

Stewardship, Compliance, and Accountability

Budgetary Information

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- Prior to June 1, the city manager submits to the Mayor and Council a proposed operating and capital improvements budget for the fiscal year commencing July 1. The budget includes proposed expenditures and the means of financing them. Public hearings are then conducted to review the budget.
- Prior to July 1, the budget is legally enacted through passage of an ordinance.
- The budget ordinance becomes effective July 1 and provides spending authority for the operations of the City government. The legal control which the budget ordinance establishes over spending is at the fund level. Each of the general, special revenue, debt service and enterprise funds have legally adopted annual budgets appropriated at the fund level. The capital budget is adopted at the fund level but is not adopted as an annual budget.
The city manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Mayor and Council.
- Subsequent to passage of the budget ordinance, the Mayor and Council may approve supplemental appropriations. During FY 2004, such supplemental appropriations for all funds amounted to \$405,339.

At the end of the fiscal year, unexpended operating budget appropriations of the governmental funds lapse. Budgets for the general, special revenue, debt service, and enterprise funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Accordingly, all governmental fund budgets are presented on the modified accrual basis of accounting; the enterprise fund budgets are adopted on the full accrual basis. The budgetary comparison schedules – original budget, amended budget and actual - general fund, compares actual expenditures on a basis consistent with the legally adopted budgets as amended.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation, is an extension of formal budgetary control in all governmental funds. The encumbrances outstanding at June 30, 2004, are reported as reservations of applicable fund balances and are subject to reappropriation by Council ordinance in the succeeding fiscal year.

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Other Supplementary Information

Nonmajor Governmental Funds

Special Revenue Funds and Debt Service Fund

Special Revenue Funds accounts for the proceeds of specific revenue sources to be expended for specified purposes. The City maintains two funds: the Community Development Block Grant Fund and the Special Activities Fund. The Community Development Block Grant Fund accounts for federal grants for housing and community development programs. The Special Activities Fund accounts for funds raised for various community activities (i.e. Rockville Seniors Inc., mansion improvements, bike program, etc.).

The Debt Service Fund accounts for the payment of principal and interest on governmental activities of the City.

CITY OF ROCKVILLE, MARYLAND

Combining Balance Sheet Nonmajor Governmental Funds June 30, 2004

| | <u>Special Revenue</u> | | | |
|---|---|--|---|--|
| | <u>Property Management Fund</u> | <u>Special Activities Fund</u> | <u>Community Development Block Grant Fund</u> | <u>Total Nonmajor Governmental Funds</u> |
| Assets | | | | |
| Equity in pooled cash and cash equivalents | \$ | \$262,306 | \$ - | \$262,306 |
| Accounts receivable, net | | 15,255 | 76,122 | 91,377 |
| Other assets | | <u>227</u> | <u>-</u> | <u>227</u> |
| Total assets | \$ - | \$277,788 | \$76,122 | \$353,910 |
| Liabilities and Fund Balance | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ | \$ 883 | \$ - | \$ 883 |
| Interfund payable | | - | 17,414 | 17,414 |
| Other | | <u>-</u> | <u>58,708</u> | <u>58,708</u> |
| Total liabilities | \$ | \$ 883 | \$76,122 | \$ 77,005 |
| Fund Balance: | | | | |
| Unreserved: | | | | |
| Undesignated | | <u>276,905</u> | <u>-</u> | <u>276,905</u> |
| Total fund balance | \$ - | \$276,905 | \$ - | \$276,905 |
| Total liabilities and fund balance | \$ - | \$277,788 | \$76,122 | \$353,910 |

CITY OF ROCKVILLE, MARYLAND

Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds For the Year Ended June 30, 2004

| | <u>Special Revenue</u> | | | |
|--------------------------------------|---|--|---|--|
| | <u>Property Management Fund</u> | <u>Special Activities Fund</u> | <u>Community Development Block Grant Fund</u> | <u>Total Nonmajor Governmental Funds</u> |
| Revenue | | | | |
| Grant revenue | \$ - | \$ 66,895 | \$412,712 | \$479,607 |
| Use of money and property | 1,318 | 2,074 | - | 3,392 |
| Other | <u>78,890</u> | <u>148,160</u> | - | <u>227,050</u> |
| Total revenue | <u>\$ 80,208</u> | <u>\$217,129</u> | <u>\$412,712</u> | <u>\$710,049</u> |
| Expenditures | | | | |
| Community development block grant | - | - | 412,712 | 412,712 |
| Community development | 146,000 | - | - | 146,000 |
| Community services | <u>-</u> | <u>208,274</u> | <u>-</u> | <u>208,274</u> |
| Total expenditures | <u>\$146,000</u> | <u>\$208,274</u> | <u>\$412,712</u> | <u>\$766,986</u> |
| Excess of revenue over expenditures | \$(65,792) | \$ 8,855 | \$ | \$(56,937) |
| Other Financing Uses | | | | |
| Transfers out | <u>(81,367)</u> | - | - | <u>(81,367)</u> |
| Net change in fund balances | (147,159) | 8,855 | - | (138,304) |
| Fund balance at beginning of year | <u>147,159</u> | <u>268,050</u> | - | <u>415,209</u> |
| Fund balance at end of year | <u>\$ -</u> | <u>\$276,905</u> | <u>\$ -</u> | <u>\$276,905</u> |

CITY OF ROCKVILLE, MARYLAND

Budgetary Comparison Schedule Nonmajor Governmental Funds For the Year Ended June 30, 2004

| | Property Management Fund | | | | Special Activities Fund | | | | Community Development Block Grant Fund | | | | Total | | | |
|-------------------------------------|--------------------------|-------------|---|-----------------|-------------------------|-------------|---|-----------------|--|-----------|---|-----------------|-------------------|-------------|---|-------------|
| | Budget as Amended | Actual | Variance From Amended Positive (Negative) | Original Budget | Budget as Amended | Actual | Variance From Amended Positive (Negative) | Original Budget | Budget as Amended | Actual | Variance From Amended Positive (Negative) | Original Budget | Budget as Amended | Actual | Variance From Amended Positive (Negative) | |
| Revenue | | | | | | | | | | | | | | | | |
| Grant revenue | \$ - | \$ - | \$ - | \$ - | \$ 72,000 | \$ 81,000 | \$ 66,895 | \$(14,105) | \$760,000 | \$833,020 | \$412,712 | \$(420,308) | \$ 832,000 | \$ 914,020 | \$479,607 | \$(434,413) |
| Use of money and property | - | - | 1,318 | 1,318 | 3,272 | 3,272 | 2,074 | (1,198) | - | - | - | - | 3,272 | 3,272 | 3,392 | 120 |
| Other | 2,027 | 2,027 | 78,890 | 76,863 | 106,205 | 103,738 | 148,160 | 44,422 | - | - | - | - | 108,232 | 105,765 | 227,050 | 121,285 |
| Total revenue | \$ 2,027 | \$ 2,027 | \$ 80,208 | \$78,181 | \$ 181,477 | \$ 188,010 | \$217,129 | \$ 29,119 | \$760,000 | \$833,020 | \$412,712 | \$(420,308) | \$ 943,504 | \$1,023,057 | \$710,049 | \$(313,008) |
| Expenditures | | | | | | | | | | | | | | | | |
| Community development block grant | - | - | - | - | - | - | - | - | 760,000 | 833,020 | 412,712 | 420,308 | 760,000 | 833,020 | 412,712 | 420,308 |
| Community Development | 146,000 | 146,000 | 146,000 | - | - | - | - | - | - | - | - | - | 146,000 | 146,000 | 146,000 | |
| Community services | - | - | - | - | 383,844 | 465,030 | 208,274 | 256,756 | - | - | - | - | 383,844 | 465,030 | 208,274 | 256,756 |
| Total expenditures | \$ 146,000 | \$ 146,000 | \$ 146,000 | \$ - | \$ 383,844 | \$ 465,030 | \$208,274 | \$256,756 | \$760,000 | \$833,020 | \$412,712 | \$ 420,308 | \$1,289,844 | \$1,444,050 | \$766,986 | \$ 677,064 |
| Excess of revenue over expenditures | (143,973) | (143,973) | (65,792) | 78,181 | (202,367) | (277,020) | 8,855 | 285,875 | - | - | - | - | (346,340) | (420,993) | (56,937) | 364,056 |
| Other Financing Uses | | | | | | | | | | | | | | | | |
| Transfer to general fund | - | (81,367) | (81,367) | - | - | - | - | - | - | - | - | - | - | - | (81,367) | (81,367) |
| Net change in fund balances | \$(143,973) | \$(143,973) | \$(147,159) | \$(3,186) | \$(202,367) | \$(277,020) | \$ 8,855 | \$ - | \$ - | \$ - | \$ - | \$ - | \$(346,340) | \$(420,993) | \$(138,304) | \$ - |

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CITY OF ROCKVILLE, MARYLAND

Budgetary Comparison Schedule Debt Service Fund For the Year Ended June 30, 2004

| | <u>Original Budget</u> | <u>Budget as Amended</u> | <u>Actual</u> | <u>Variance from Amended Positive (Negative)</u> |
|--------------------------------------|----------------------------|------------------------------|----------------------|--|
| Revenue | | | | |
| Assessments | \$ 367,470 | \$ 367,470 | \$ 367,247 | \$ (223) |
| Use of money and property | <u>59,076</u> | <u>59,076</u> | <u>35,185</u> | <u>(23,891)</u> |
| Total revenue | \$ 426,546 | \$ 426,546 | \$ 402,432 | \$ (24,114) |
| Expenditures | | | | |
| Principal repayments: | | | | |
| General obligation bonds | 2,695,526 | 2,696,027 | 2,696,026 | 1 |
| Interest and issuance costs: | | | | |
| General obligation bonds | 1,209,464 | 926,202 | 874,838 | 51,364 |
| Other | <u>10,000</u> | <u>10,000</u> | <u>250</u> | <u>9,750</u> |
| Total expenditures | <u>\$ 3,914,990</u> | <u>\$ 3,632,229</u> | <u>\$ 3,571,114</u> | <u>\$ 61,115</u> |
| Excess of expenditures over revenues | <u>\$(3,488,444)</u> | <u>\$(3,205,683)</u> | <u>\$(3,168,682)</u> | <u>\$ 37,001</u> |
| Other Financing Sources | | | | |
| Premium on general obligation debt | - | - | 83,215 | 83,215 |
| Transfer in from general fund | <u>3,698,662</u> | <u>3,120,683</u> | <u>3,120,683</u> | <u>-</u> |
| Total financing sources | <u>\$ 3,698,662</u> | <u>\$ 3,120,683</u> | <u>\$ 3,203,898</u> | <u>\$ 83,215</u> |
| Net change in fund balance | <u>\$ 210,218</u> | <u>\$ (85,000)</u> | <u>\$ 35,216</u> | <u>\$ 120,216</u> |

Other Supplementary Information

Proprietary Funds

Enterprise Funds

Budget comparison schedule for the water, sewer, and refuse funds.

CITY OF ROCKVILLE, MARYLAND

Budget Comparison Schedule Enterprise Funds For the Year Ended June 30, 2004

| | <u>Water Facility Fund</u> | | | | <u>Sanitary Sewer Fund</u> | | | | <u>Refuse Fund</u> | | | |
|---|----------------------------|----------------------|-----------------------|---|----------------------------|----------------------|---------------------|---|---------------------|----------------------|---------------------|---|
| | Original Budget | Budget as Amended | Actual | Variance from Amended Positive (Negative) | Original Budget | Budget as Amended | Actual | Variance from Amended Positive (Negative) | Original Budget | Budget as Amended | Actual | Variance from Amended Positive (Negative) |
| Total revenue | \$4,395,794 | \$4,395,794 | \$ 3,695,205 | \$(700,589) | \$6,113,266 | \$6,113,266 | \$5,300,119 | \$(813,147) | \$4,058,406 | \$4,058,406 | \$4,128,978 | \$ 70,572 |
| Total operating Expenses | <u>3,580,463</u> | <u>3,626,798</u> | <u>3,459,136</u> | <u>167,662</u> | <u>3,883,668</u> | <u>4,018,021</u> | <u>3,485,146</u> | <u>532,875</u> | <u>4,348,937</u> | <u>4,364,568</u> | <u>4,232,816</u> | <u>131,752</u> |
| Operating income (loss) before depreciation and amortization | \$ 815,331 | \$ 768,996 | \$ 236,069 | \$(532,927) | \$2,229,598 | \$2,095,245 | \$1,814,973 | \$(280,272) | \$(290,531) | \$(306,162) | \$(103,838) | \$202,324 |
| Depreciation and amortization | <u>(1,076,472)</u> | <u>(1,083,472)</u> | <u>(1,082,860)</u> | <u>612</u> | <u>(859,972)</u> | <u>(874,972)</u> | <u>(874,096)</u> | <u>876</u> | <u>(400,402)</u> | <u>(400,152)</u> | <u>(317,265)</u> | <u>82,887</u> |
| Operating income (loss) | \$ (261,141) | \$ (314,476) | \$ (846,791) | \$(532,315) | \$1,369,626 | \$1,220,273 | \$ 940,877 | \$(279,396) | \$(690,933) | \$(706,314) | \$(421,103) | \$285,211 |
| Total nonoperating income (expenses) | <u>\$ (290,836)</u> | <u>\$ (246,338)</u> | <u>\$ (190,841)</u> | <u>\$ 55,497</u> | <u>\$ (379,464)</u> | <u>\$ (230,111)</u> | <u>\$ (238,278)</u> | <u>\$ (8,167)</u> | <u>\$ (33,385)</u> | <u>\$ (18,004)</u> | <u>\$ (15,650)</u> | <u>\$ 2,354</u> |
| Income (loss) before operating transfers | \$ (551,977) | \$ (560,814) | \$(1,037,632) | \$(476,818) | \$ 990,162 | \$ 990,162 | \$ 702,599 | \$(287,563) | \$(724,318) | \$(724,318) | \$(436,753) | \$287,565 |
| <u>Operating Transfers</u> <u>In</u> Transfer in from general fund | | | | | | | | | <u>36,792</u> | <u>36,792</u> | <u>36,792</u> | |
| Net increase (decrease) in net assets | <u>\$ (551,977)</u> | <u>\$ (560,814)</u> | <u>\$ (1,037,632)</u> | <u>\$ (476,818)</u> | <u>\$ 990,162</u> | <u>\$ 990,162</u> | <u>\$ 702,599</u> | <u>\$ (287,563)</u> | <u>\$ (687,526)</u> | <u>\$ (687,526)</u> | <u>\$ (399,961)</u> | <u>\$287,565</u> |

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